NOV 1963

MEMORANDUM FOR: Mr. Warner

SUBJECT: The Interest Equalization Tax Act - H.R. 8000

1. The purpose of H.R. 8000 as noted in the President's Special Message on the Balance of Payments, 18 July 1963, is to stem the outflow of long-term capital from the United States. As was noted in this message, portfolio investments have been rising rapidly in recent years. This is due mainly to the lower interest rates in the United States coupled with the continued existence of direct controls and inadequate capital market mechanisms in many foreign countries. The President stated that a temporary measure would be necessary to help equalize interest rate patterns for longer term financing in the United States and abroad which in turn would make United States rates less attractive to foreigners. Accordingly, he proposed the enactment of H.R. 8000 which in effect increases by approximately one percent the interest cost to foreigners of obtaining capital in the United States. It should be emphasized that this Bill is contemplated by the Administration as being but a temporary measure. At present it is thought that by 1965 improvement in our balance of payments and in the operation of foreign capital markets will permit the abandonment of this measure.

General Description of H.R. 8000

2. (a) H.R. 8000 proposes the enactment of the Interest Equalization Tax Act of 1963 under which a special temporary excise tax, to remain in effect through 1965, is imposed

on the acquisition by American persons of stock or debt obligations of foreign issuers. The tax will also apply to acquisition of depositary receipts or other evidence of interest in or rights to acquire interest. The tax will be payable by all United States citizens, residents, and corporations except as stated within the Bill. It will apply to portfolio purchases of stock or debt securities issued by foreign corporations, governments, or other persons whether or not such securities are new or outstanding and whether or not the acquisition is effected in the United States or abroad. It will not apply to purchases by Americans from Americans.

(b) The tax will be imposed on each acquisition by the United States person of a debt obligation of a foreign obligor if such obligation has a period remaining to maturity of three years or more. The tax on such debt obligations will vary from 2.75 percent of actual value where the period remaining to maturity is three years to 15 percent of actual value where the period remaining to maturity is 28 1/2 years or more. In the case of an acquisition of stock of a foreign issuer by a United States person a tax will be imposed equal to 15 percent of the actual value of the stock.

3. (a) The tax will not be applicable to direct investment by United States persons in overseas subsidiaries or affiliates. A direct investor is defined as one who owns, immediately following the acquisition, directly or through a foreign corporation at least ten percent of the combined voting power of all classes of stock entitled to vote. This exclusion will apply to both debt obligations and securities. However, such exclusion will be inapplicable in certain instances where the foreign corporation is formed or availed of for the principal purpose of acquiring securities otherwise subject to the tax unless acquired in the normal course of the activities of certain businesses.

(b) The tax will also not be applicable in the following situations:

(1) Loans made by commercial banks in the ordinary course of their commercial banking business

(2) Credits extended to producers of United States goods and services in connection with their exports, as well as Export-Import Bank financing

(3) Securities issued by international organizations of which the United States is a member

(4) Securities issued by governments of Less Developed Countries and Corporations where the principal activities are in those countries

(5) Resale of foreign issues by an underwriter to foreigners

(6) New issues of securities where the President has determined that the application of the tax would imperil or threaten the stability of the international monetary system.

4. Generally the tax will be effective regarding acquisitions made after 18 July 1963. However, various exceptions apply here. For example, acquisitions effected on a national securities exchange on or before 16 August 1963 will not be subject to the tax. Purchase commitments made on the open market on or before 18 July will also not be affected by the tax.

5. The United States person making such a taxable acquisition is liable for the tax. The Bill provides that applicable returns must be filed monthly. With regard to the exclusions for securities acquired by United States persons from United States persons, the Bill provides for the filing of certificates of ownership to prove that the seller was a United States citizen, resident, or corporation during the necessary period of time.

Detailed Description of Pertinent Sections of H.R. 8000

6. Definitions.

(a) The term stock is defined in the Bill as meaning any stock, share, or capital interest in a corporation, association, insurance company, or joint stock company; any interest of a limited partner in a limited partnership; any interest in an investment trust; any indebtedness convertible by its terms to stock of the obligor within a period of five years or less from the date of acquisition; and any interest in an option or similar right to acquire any such stock.

(b) A United States person is defined by the Bill as meaning a citizen or resident, a partnership created or organized in the United States, a corporation created or organized in the United with various exceptions, an agency or wholly owned instrumentality of the United States, a state or any agency instrumentality or political subdivision thereof, and any estate or trust the income of which from sources outside the United States is includable in gross income or would be so includable if not exempt under certain specific sections named in the Bill or which is situate in the Commonwealth of Puerto Rico or a possession of the United States.

(c) The term acquisition is defined as meaning any purchase, transfer, distribution, exchange, or other transaction by virtue of which ownership is obtained either directly or through a nominee, custodian, or agent. Any extension or renewal of existing debt obligations requiring affirmative action of the obligee at the time of such extension or renewal is also considered as being an acquisition.

(d) Under Section 4914 the following transactions are listed as not being considered acquisitions for the purposes of this Bill:

(1) A transfer between a person and his nominee, custodian, or agent

(2) Various transfer by operation of law

(3) Any transfer to a United States person by legacy, bequest, or inheritance or to an individual by gift

(4) Any distribution by a corporation to a shareholder with respect to or in exchange for its stock

(5) Exercise of a right to convert a debt instrument into stock

(6) Any stock option granted an employee with restrictions as to transferability.

7. Under Section 2912(b) certain transfers of money or property to foreign trusts or partnerships will be deemed acquisitions in an amount equal to actual value of the money or property transferred if and to the extent that such trusts or partnerships are availed of to acquire stock or debt obligations of one or more foreign obligors other than debt obligations having a period of less than three years to maturity. Under this section capital contributions by shareholders of a foreign corporation are also deemed acquisitions in an amount equal to the actual value of money or property transferred. Acquisitions of stocks or debt obligations of a foreign issuer or obligor in certain reorganization exchanges shall also be considered taxable acquisitions.

8. Exclusions. The Bill specifies that the tax shall not apply to acquisitions by:

(a) Agencies or wholly owned instrumentalities of the United States

(b) A commercial bank in making loans in the ordinary course of its commercial banking business. This exclusion also applies to acquisition through foreclosure. However, it does not extend to investment banks, trust companies, or others not regularly engaged in the commercial banking business or to acquisition by such a bank for its investment portfolio. For the purpose of this Bill corporations organized under Section 25(a) of the Federal Reserve Act (the Edge Act) are considered commercial banks. Where a person is engaged in other business as well as commercial banking, only such acquisitions relating solely to the commercial banking business are excluded. It should be noted that the Treasury will look to past commercial banking practices as being indicative of the ordinary conduct of the business. It was pointedly noted that ordinary loans by such organizations are usually not made for periods of more than five years and usually are made for less than three years.

(c) United States persons in connection with loans made to assure raw materials sources

(d) United States persons doing business in a foreign country where such acquisition is reasonably necessary to satisfy various requirements of that country

(e) Certain tax-exempt organizations with affiliates or branches in local countries in certain circumstances

(f) United States person arising from the sale of property or services (except an underwriter or dealer in securities) where payment is guaranteed or insured by the United States or where 85 percent of the purchase price is attributable to the sale of United States goods or the performance of services by a United States person, subject to various restrictions within the Bill

(g) Life and Casualty insurance companies, operating in a foreign country, to the extent such acquisitions are necessary, in a manner to be computed in accordance with the Bill.

It should be noted that Sections (c), (e), (f), and (g) are revisions suggested by the Treasury.

9. Exclusion for Direct Investment. An extremely important exclusion from the application of this Bill is that relating to direct investment in foreign corporations. As a general rule it is proposed that the tax will not be applicable to acquisitions of stock or debt obligations if immediately after the acquisitions the United States person owns ten percent or more of the combined voting power of all classes of stock of the foreign corporation. The Secretary of Treasury suggested a further revision of this exclusion to the effect that stock owned by members of a group of domestic corporations which qualify for filing a consolidated income tax return would be counted in determining qualification for this exclusion. By another suggested revision the Treasury will allow qualification for this exclusion by investments in the case of three or fewer United States persons if a foreign government or state-owned enterprise owns a substantial percentage of the stock; and such persons above referred to own ten percent of the combined voting power. This provision therefore would apply especially to

situations involving the construction and operation of oil pipelines where foreign governments require ownership to be widespread making it at the very least difficult for a United States person to own ten percent of the stock. For purposes of the direct investment exclusion, stock owned directly or indirectly by or for a foreign corporation shall be considered as being owned proportionately by its shareholder. This exclusion, however, does not apply to a foreign corporation formed or availed of by a United States person for the principal purpose of acquiring an interest in stock or debt obligation of other foreign issuers or obligors except where such acquisitions are made to satisfy minimum requirements of foreign law or are in the ordinary course of the business of underwriting or distributing securities issued by others or where the person making the acquisitions is acting as a broker or in making loans in the ordinary course of its business as a commercial bank. This exclusion is also not applicable where the acquisitions are made with an intent to sell or to offer to sell any part of such stock or obligation to United States persons.

10. Exclusion for Investment in Less Developed Countries. The tax will also not apply to various investments in stock or debt obligations of a foreign issuer or obligor constituting an investment in a less developed country. Both the type of investment required and the term less developed country are defined within the Bill.

11. The Bill empowers the President to exempt new or original issues of stock or debt obligations of a foreign country from the application of this tax upon determination that the tax will have such consequences for such country as to threaten or imperil the stability of the international monetary system. The exemption may be applicable to all such issues or only to an aggregate amount or classification thereof.

12. Various other revisions of this Bill exempt acquisitions later sold by underwriters and dealers to foreign persons. Other procedural sections provide for the filing of income tax returns where applicable and the certificates of ownership in sales from Americans to Americans.

13. Disallowance of Deductions. By the terms of this Bill any amount paid as Interest Equalization Tax cannot be deducted for income tax purposes except to the extent that any amount attributed to the amount paid as tax is included in gross income.

14. As has been stated, the President is authorized to exempt certain acquisitions of new issues by executive order where the stability of the international monetary system is threatened. Secretary Dillon has stated that new Canadian issues would be exempt under this provision due to the present financial difficulties faced by Canada. However, this exemption will be closely watched by the Treasury, and in the event Canadian borrowing exceeds "prudent limits," the Treasury will recommend that a limitation be placed on the volume of such exempt borrowings. This provision, however, does not affect the extremely large holdings of American investors in Canadian companies as present holdings would not be exempt. During the hearings on this Bill before the Ways and Means Committee, Secretary Dillon did state that the Treasury would be prepared to study the situation, not uncommon regarding Canadian companies, where more than one-half of the securities are owned by Americans. Evidently as a result of the above statement of the Secretary, a revision of the definition of foreign issuer or obligor has been suggested by the Treasury. This revision would treat as United States persons foreign corporations closely identified with the United States and generally regarded as American companies. Such companies would qualify where the stock of the corporations is traded on at least one national security exchange in the United States; where the trading on such exchange constituted the principal market for such stock during a period prior to announcement of the tax and where more than fifty percent of the stock was held of record by United States persons as of the latest record date prior to the announcement of the tax.

15. The exclusion of commercial banks from this tax is based on the fact that most large commercial loans do not exceed three years in length and few exceed five years. Secretary Dillon has noted that the Treasury will keep close watch on such loans in the future. In effect this exclusion is predicated on the hope that the volume of long-term loans by commercial banks will not drastically increase. This exclusion has been attacked by members of the business community especially with regard to the fact that it applies only to "commercial" banking.

16. The direct investment exclusion has also been attacked as being unfair to smaller investors. Spokesmen for business and banking interests, including representatives of the oil,

contracting, and live insurance business, also attacked the narrow scope of this exclusion. Much of their concern is based on the fact that such business find it necessary as accepted practice to hold foreign obligations. Specific mention was made of the need for life insurance companies to invest in foreign stocks as well as the fact that current business climate overseas necessitates the lending of money to foreign customers by oil and construction companies in return for debt obligations or stock. According to such commentaries, a failure to follow such practices would severely and adversely affect the competitive position of the United States firms. While some relief has been offered by the Treasury's suggestion, it is questionable as to whether or not it will satisfy the industries concerned. A basic question raised by such representatives is whether or not acquisitions of this type are really portfolio transactions as contemplated in the rationale behind the tax Bill.

17. On broader grounds the tax has been attacked by various members of the business and banking community as being in essence an exchange control which could very well result in loss of confidence in the dollar as a result of fear of further restrictions on financial transactions by the United States. Such views are not unsupported. Along this line it was also argued that the raise of approximately one percent in interest cost will not equalize the interest rates between the United States and foreign capital markets. The general consensus of the business and banking community is that this tax will not fulfill its purpose and has a very good possibility of further impairing the United States position regarding balance of payments. These representatives seem to feel that this Bill is not directed at the fundamental cause of the balance of payments deficit. Whether or not such belief is incorrect may very well be irrelevant in light of the fact that the leaders of such communities might predicate future activities on such a belief.

18. According to the Treasury Department the chances for passage of this Bill are still good. Although there is some opposition principally from the Republicans in Congress, the opposition's purpose has not been to kill the Bill but rather to broaden the scope of the exemptions and exclusions. At the present time much effort is being given to exclude stock from the application of the tax. For all intents and purposes the Bill then would only be applicable to debt obligations.

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the Director go in, but requiring him to show cause, as it were, why he should not turn the program over to a State on the request of a State, is the best plan to keep away from the argument that poor people will not be helped because of the obduracy of some State. At the same time, it would not deny to a State the opportunity to take over a program if it is fully able to take it over effectively.

Mr. CARLSON. If the Senator from New York will permit me, I would agree with him in that latter statement, but I assure the Senator from New York that there are many States that would be willing to cooperate effectively in a program of this type.

Mr. JAVITS. The amendment I have proposed would result in a large part of this program being under State administration in a relatively short period of time. As always happens in these programs, the States take over slowly when there is not much enthusiasm for a program. In this case, they could move as fast as 1 year. Most of the States which took over the program which was offered to them have moved within 1 year.

PRESIDENT OF NEW YORK STOCK EXCHANGE OPPOSED TO INTEREST EQUALIZATION TAX

Mr. JAVITS. Mr. President, I would like to call to the attention of the Senate an article which appeared in the July 6, 1964, issue of the New York Times indicating the strong opposition of Keith Funston, president of the New York Stock Exchange, to H.R. 8000, the interest equalization tax bill.

Mr. Funston bases his opposition on the grounds that the measure would be ineffective as a remedy for our balance-of-payments problem and that it would discriminate against stocks.

As positive alternatives to the tax proposal he proposes two excellent alternatives: Full implementation by the Congress and the administration of the recommendations of the Presidential Task Force on the Balance of Payments—otherwise known as the Fowler Committee—and, if it becomes necessary, a voluntary capital issues committee.

As my colleagues know, I am opposed to the proposed tax. I do not believe that it would work, or that there is continued justification for the measure. Should a new balance-of-payments emergency arise in the future a much more effective approach would be needed. A capital issues committee, would, in my view, and in the view of a great many members of the financial community, do the job with far greater effectiveness.

I ask unanimous consent that the New York Times article, as well as my July 2 statement before the Senate Finance Committee on H.R. 8000, may be printed in the RECORD at the conclusion of my remarks.

There being no objection, the article and the statement were ordered to be printed in the RECORD, as follows:

[From the New York Times, July 6, 1964]

FUNSTON JOINS THOSE OPPOSING INTEREST-EQUALIZATION TAX BILL

(By Vartanig G. Vartan)

Keith Funston, president of the New York Stock Exchange, has joined the parade of people asking Congress to reject the interest-equalization tax bill. The proposed tax, which already has cleared the House, would be levied on foreign securities purchased by Americans from foreigners.

The graduated tax scale runs up 15 percent. The bill is being pushed by the Johnson administration.

Mr. Funston made known the views of the big board over the weekend in a statement filed with the Senate Finance Committee. The committee completed public hearings last week on the legislation.

An exchange spokesman said that Mr. Funston, who did not appear in person in Washington, was on the west coast last week on a business and vacation trip.

TWO OBJECTIONS

Mr. Funston opposed the tax on two chief points. He said it would be ineffective as a remedy for the balance-of-payments deficit and also that it would discriminate against stocks.

In place of the proposed bill, he urged Congress and the administration to give full support to recommendations in the Presidential task force report on the balance of payments.

And, if necessary, Mr. Funston said, a voluntary capital issues committee could be set up to screen capital issues coming to the U.S. market from abroad.

In his statement, he scored the tax bill for being "out of step with the trend toward international cooperation, inconsistent with other U.S. policies in the international field, and alien to our own history of promoting free capital movement."

AIMED AT DEFICIT

The idea behind the proposed legislation is that by cutting down on the sales of foreign stocks and bonds in the U.S. market, it would reduce the payments deficit. This is the gap between the amount of funds flowing out of the country and amount returning.

The bill would levy a tax during the period from July 19, 1963, to December 31, 1965. One impact of the proposal already has been to lower the market prices of many foreign securities in this country and to curtail substantial trading in these issues.

"The tax should not be passed, even as a temporary measure," the exchange president said.

"Passage would offer only limited relief to our balance-of-payments position, while imposing restrictions on U.S. capital at a time when we are encouraging others to open their capital markets to foreigners."

"Enactment of this tax," he added, "will serve as a precedent for any country to justify imposing or continuing restrictions on capital flows, and raise questions about U.S. intentions in the whole payments area."

STATEMENT BY SENATOR JAVITS

I appreciate the opportunity to testify before this committee in opposition to H.R. 8000, the interest equalization tax bill, a measure which is of particular interest to me and to the New York financial community, and which has a critical bearing on the national economy.

Let me make it clear that I feel this measure is nothing more than a new kind of protective tariff which when enacted will not only be incapable of doing the job it is designed to do, but which can have a deleterious effect on the role of the United States as the financial center of the world. I also agree with the conclusions of many experts that there is no present emergency, and that there are alternatives better able to reduce our imbalance of international payments if any emergency arose. Of these alternatives, I believe that the creation of a capital issues committee, under the guidance of the Treasury, would be most effective.

Since the President's balance-of-payments message last July, I have repeatedly addressed myself to this subject. I would now like to summarize my position on the bill:

1. I believe that the tax is a new protective tariff designed to limit the importation of foreign securities. Viewed from the opposite point of view it is a duty on exports of private capital for investment abroad. This is a significant departure from our traditional policies regarding the free flow of capital and our postwar multilateral approach. As significant, in fact, as would be a return to high protective tariffs on U.S. imports regarding our commitment to liberalize world trade. We would be setting a very bad example to the other countries of the Western World which we have urged to reduce their international trade barriers and to maintain, as much as possible, the highly desirable goal of freer flowing capital and exchange of goods and services between friendly countries.

2. This tax would be an exchange control of limited capacity. It would be a tax specifically designed to control and restrict. It would delegate to the President discretionary powers of application and exemption.

3. As indicated in Secretary Dillon's letter to me of May 28, 1963, an increase in U.S. long-term interest rates—which would be the effect of the proposed tax on foreign investors—would not achieve the basic objective of this measure. The Secretary stated: "even if long-term interest rates rose above those in Europe and Japan, we would expect foreign governments and corporations, particularly those needing relatively large amounts of money, to resort to the highly developed U.S. market."

Even after a 1-percent increase in the interest cost to foreign borrowers in the U.S. market it will still be cheaper, or as cheap, to borrow here as in most European countries. Underwriting costs in Europe, for example, are considerably higher than in the United States so that even with the tax, borrowing in the United States may be more attractive than borrowing elsewhere.

Furthermore, a decrease in U.S. capital supplied to foreign markets will result in an increase in demand for foreign capital and a pressure for higher interest rates abroad. While the interest rate spread between the United States and Europe initially would be reduced by about one percentage point under the bill, the spread probably would return to approximately its pretax size after the offsetting increase in foreign rates that would likely result.

4. Still valid today are the sentiments expressed in a September 1, 1963 New York Times editorial: "The tax is difficult to reconcile with President Kennedy's assertions that the present tax structure must be simplified and trade barriers reduced. The addition of the tax would complicate the tax structure and would establish a tariff on capital, putting into effect a two price system for funds. And despite the administration's claims that the tax will not interfere with the workings of the free market, it is clearly a form of control."

5. The exemptions provided for in the bill exclude from the tax the major areas of capital outflow, taxing only a relatively insignificant total of transactions—about 10 per-

cent of total private U.S. capital exports according to careful estimates of the Association of Stock Exchange Firms. These would include the purchase of foreign stocks and the purchase of new foreign bonds (other than Canadian, which are exempt) where the borrower is precluded from obtaining the funds from a bank. Since most lending abroad—and for the most part foreign bonds—are purchased by U.S. institutional investors such as banks, insurance companies and the like, the net effect is to permit banks to lend money abroad tax free, but to deny to the other institutional investors the same right. The foreign borrower is "funneled" into the bank loan route. Interestingly, U.S. bank loans to foreigners have increased since the tax was proposed. Preliminary Treasury, Commerce and FRB figures indicate that commercial bank loans to foreigners have more than tripled: from approximately $400 million in 1962 to $1.28 billion in 1963. I might also add that direct investments which are exempt from the tax, have exceeded the net outflow caused by new securities in every year since 1960, including 1963 and the first quarter of 1964. The bill also provides exemption from the tax on original or new issues where the President determines that it is required for the stability of the international monetary system. This loophole could severely limit its effect on the U.S. balance of payments, which is already weakened by numerous exemptions.

6. The tax would be inequitable because it would penalize the small investor who would be subject to the tax on the purchase of a few shares or a few bonds of a foreign corporation, while a large company, or a wealthy individual could purchase tax free a substantial interest in the same foreign corporation. The bill exempts from the tax purchases involving 10 percent or more of the total combined voting power of all classes of stock of the foreign corporation.

7. The tax might very well worsen our balance-of-payments position Dr. Lawrence Krause, of the Brookings Institution, has noted that "you must always distinguish between improving the balance of payments and stopping a capital flow. These are not identical. You may deter some capital flow and you pay for it in lower exports or some other feedback in the balance of payments." The program to tax American capital investments abroad thus may offset the benefits to efforts to increase U.S. exports.

8. Nearly every witness before this committee and the House Ways and Means Committee who was questioned about the interest equalization tax proposal either opposed it or supported it only with the greatest reluctance. Even its advocates have admitted that it would not be desirable as a permanent measure, yet experience suggests that such "temporary taxes" often become permanent.

In spite of this general lack of enthusiasm, the administration continues to press for its approval with the unconvincing argument that if the bill does not pass, foreigners will feel that the United States is not serious about eliminating its balance-of-payments deficit. In fact, rejection of this tax will strengthen the confidence of foreigners in the strength of our adherence to basic and oft-stated principles of a national policy of free and open world markets for goods and capital.

The proposed tax would erect an artificial wall to the free flow of private capital with longrun effects that would be damaging to both our domestic economy and our foreign economic policy. The New York Times commented editorially on July 24, 1963: "This measure is inconsistent with the position of the United States as the world's banker and with the long-standing objective of lowering barriers to trade and capital movements. Instead, it suggests that we are regressing toward direct controls over capital, which led to the breakdown of international finance a generation ago."

9. The persistent deficit in our balance of payments is not attributable to private investment abroad. As the Brookings Institution recent report on the balance of payments pointed out, receipts of dividends and interest on U.S. investment abroad have consistently exceeded new outflows of U.S. capital to foreign countries, with the exception of the 1957-58 period. The Brookings study said that, although earnings primarily reflect investments made in previous years, recent new U.S. investments abroad already seem to be contributing to higher return flows to the United States.

In his message of July 18, 1963, introducing the proposed interest equalization tax, the late President Kennedy pointed out that total U.S. foreign investments amounted to an estimated $72 billion, including approximately $12 billion of relatively low-yield loans extended to foreign governments by the U.S. Government and such agencies as the Export-Import Bank. Of the remaining $60 billion, the so-called "direct investments" account for approximately $47 billion, while "portfolio investments" are estimated at roughly $12.5 billion. Total 1963 income enjoyed by the United States on account of foreign investments was estimated by the President at $4.3 billion, which is the largest income item on the U.S. balance of payments.

It is, therefore, not surprising that so much criticism is directed at the proposed legislation. While few can argue against the need for effective measures designed to create equilibrium in our balance of payments, many are appalled at the thought that the interest equalization tax is directed against the one type of capital export which contributes more toward a future equilibrium than any segment of our economy.

I would now like to comment briefly about developments here in this country and abroad since last July which I believe call for a reappraisal of the need for the bill at this time.

Since the introduction of this measure there have been several important developments which already have and will continue to have in the future a favorable impact on our balance of payments.

The condition of economic growth in Europe and the relatively slow growth in the United States has been reversed. By the time H.R. 8000 was proposed in July 1963, both the U.S. economy and the U.S. securities markets were outstripping their oversea counterparts. Growing labor cost produced by a shortage of workers and increasing production costs and spiraling prices have produced the familiar profits squeeze in Europe and have slowed growth. American investors also have been taking a much harder look at European companies. Recent financial difficulties experienced by Machines Bull in France and Olivetti in Italy have led to wide concern about the thin capitalization of many foreign companies.

European capital markets have expanded their internal lending activities significantly in recent years, even prior to the introduction of the proposed tax. This is a conclusion reached by a Treasury study entitled, "A Description and Analysis of Certain European Capital Markets," prepared for the Joint Economic Committee in connection with its study last year on the U.S. balance of payments. This expansion has already resulted in increased markets for foreign securities in Europe. According to Secretary Dillon's testimony Monday, sales of foreign securities in European capital markets increased from $200 million during the first half of 1963 to $600 million during the same period in 1964. This expansion has made possible the financing of projects from domestic sources previously financed with capital obtained in the United States.

Since the passage of the tax cut early this year, our investment climate has improved and investment for plant equipment has increased substantially. Such investments were 3 percent higher during the first quarter of 1964 than had been anticipated at late as December 1963. The total of such investments for 1964 is expected to reach $43.9 billion, 10 percent above the fourth quarter of 1963, and 12 percent above 1963 as a whole. In striking comparison, the actual increase in capital spending between 1962 and 1963 was only 5 percent (increasing from $37 to $39 billion). The improved investment climate created by the tax cut has attracted U.S. investment which would have otherwise been invested abroad and may attract additional foreign investment to the United States.

Another factor that must be considered is the substantial expansion of our exports. Between 1962 and 1963, U.S. merchandise exports increased by $1.4 billion, from $20.6 billion to $21.9 billion compared with an increase of $566 million between 1961 and 1962. During the first quarter of this year, our exports were running at an annual rate of over $24 billion, 21 percent higher than in the first quarter of 1963. It is not very likely that this increase will be sustained throughout the year; nevertheless, such factors as the stability of prices in the United States and continued inflation in Europe and more effective export promotion techniques will be of assistance in maintaining our exports at a high level. On the other hand just such a factor as this interest equalization tax could put a real damper on it.

We must also take into consideration that in contrast to preceding years the gold outflow has declined substantially in 1963—our gold stock declined by $460 million as compared with $900 million in 1962—and during April 1964 our gold stock has actually increased by $178 million.

The most regrettable aspect of this measure is that it is another piecemeal attempt to deal with a problem which is much more fundamental; that is, the inadequacy of the international monetary system. This system was created in the immediate post-World War II period at a time when the major changes which have taken place in the subsequent 16 years were not foreseen. The modernization of that system requires a new look at the adjustment process inherent in the present system and at the manner in which international credit is created by the system. Today it takes years to eliminate major international imbalances unless they are corrected by measures which hamper economic growth and world trade. There is a need for the development of a more flexible adjustment process—in the area of prices, wages, fiscal and monetary policies, interest rates—which permits the speedy restoration of balance-of-payments equilibrium without placing excessive penalties on one or another member of the system. There is also a need to provide for adequate international credit to permit a rapid expansion of international trade and financial transactions.

Today, New York is the preeminent financial market of the world. This is of great economic and political importance. We displaced London as the world's financial center because of the World Wars and the ensuing limitations that Great Britain had to impose upon its capital markets.

If we can help it—and we can—we should not lose our present preeminence to Paris, London, Zurich or any other financial center.

This bill, coming on the heels of the April 27 report issued by the Fowler Committee—the Presidential Task Force on the Balance of Payments—which suggests effective approaches to our balance-of-payments problem on the basis of cooperative steps by government and private enterprise, may very well confuse our friends overseas. On the one hand, we put barriers in the way of U.S. citizens purchasing foreign securities, while on the other, we propose to persuade foreigners to buy more U.S. securities.

What about alternatives? Of the several alternatives proposed I would recommend to the committee's attention two possible approaches contained in two amendments I introduced yesterday:

(1) To give to the President, in lieu of the interest equilization tax, standby authority to bring into existence a capital issues committee to regulate the outflow of new secritles; (2) should the committee decide to favor the present bill, it should be amended to exempt from the tax any new debt or equity issue of a foreign issuer or obligor if not more than 25 percent of the principal amount of bonds or number of shares of the aggregate issue sold are sold to U.S. persons. In addition the Secretary of the Treasury would have discretionary authority to increase or decrease the specified percentage applicable to all issues from time to time, in accordance with the Treasury's view on the U.S. balance of payments.

I am opposed to the tax in its present form. I do not believe that present circumstances call for it. Should a new balance-of-payments emergency arise, however, the Congress should give the President effective authority to deal with this situation. A capital issues committee, composed of representatives of the financial community under the guidance of the Treasury or Federal Reserve Board, could effectively limit the sale of foreign security issues to U.S. citizens, residents, or to domestic corporations, or other entities, public or private.

There is precedent for this amendment in section 708 of the Defense Production Act of 1950, as amended, which resulted in the formation of the Voluntary Credit Restraints Committee during the Korean war period.

There are several advantages to this approach. Such a committee would only be established for the duration of an emergency and could be dismantled at will. That would not be the case with the tax, which would remain in effect at least until the end of 1965 whether needed or not and a law would have to be passed to abolish it beforehand.

Finally and very importantly, whereas the interest equalization tax is new and untried—no one has had any experience with it in actual operation—a capital issues committee is a tried and true operation, which has not only been used in this country, but in Switzerland, the United Kingdom, the Netherlands, and France as well. It is known and trusted in Western Europe. The Swiss National Bank and the central banks of the United Kingdom, the Netherlands, and France exercise reviewing authority over foreign security issues either alone or jointly with private financial institutions. Therefore, the proposal for a capital issues committee is not a new one. I may add that it has the support of respected members of the financial community in the United States, including the Association of Stock Exchange Firms.

The second alternative is based on a proposal made by Nathaniel Samuels of Kuhn, Loeb & Co., of New York, and chairman of the Foreign Investment Committee of the Investment Bankers Association of America. I believe this proposal has a great deal of merit which would make possible the tax-free entry into the U.S. capital market of at least a certain percentage of new foreign security issues, thereby enabling the U.S. capital market to retain its preeminent position as the world financial center.

In summary, my position is that the proposed bill is not now necessary, and even if an emergency arose, it would be unequal to the task assigned to it. I also believe that there are alternatives available that would be more effective in correcting our imbalance in international payments if a new emergency arose.

SENATOR AIKEN'S SPEECH AT REPUBLICAN NATIONAL CONVENTION NOMINATING SENATOR MARGARET CHASE SMITH FOR PRESIDENT

Mr. CARLSON. Mr. President, the distinguished Senator from Vermont [Mr. AIKEN] at the Republican National Convention, nominated for the Presidency one of the most outstanding Members of this body, Senator MARGARET CHASE SMITH.

I ask unanimous consent to have his nominating speech printed in the RECORD.

There being no objection, the speech was ordered to be printed in the RECORD, as follows:

Mr. Chairman and delegates, I intend to nominate for President one of the most capable persons I have ever known and one with whom I have been associated in public service for 24 years.

I don't like to start a nominating speech with a confession, but the circumstances are compelling.

In introducing my candidate, I find myself in a most peculiar position; I am severely restricted in what I can offer for your support.

I can't promise you a Cabinet job, an Ambassador's appointment—or even a shot at a nice Government contract.

I can't even offer you cigars or chewing gum.

For a while, it looked real promising. I thought I could at least invite you all out for coffee because I knew my candidate was having checks and $10 and $1 bills and pennies sent her from most every State in the Union. Pennies came from schoolchildren—and dollars from low-income people who couldn't afford it. Then there were some beautiful checks in three and four figures from real important business people.

The outlook looked as rosy as a Pacific sunset.

You and I were going to have a wonderful time here in San Francisco.

Then do you know what happened?

Do you know what my candidate pulled on me?

She took every big check—every little check—every $10 bill—every $1 bill and every penny and sent them straight back to where they came from. My candidate wants the nomination solely on her record and her qualifications for the job. And that's why I can't offer you any candy or cigars or chewing gum or even ask you all out for a cup of coffee.

The only thing in the world left for me to offer you for your support is the best managed government the United States ever had—a government headed by the best qualified person you ever voted for.

Before setting forth the qualifications of the candidate I shall shortly present to you, let it be distinctly understood that I am concerned solely with the nomination of one who is best qualified for the job and who can bring victory to our party in November.

I am not making this nomination for the purpose of embarrassing any other candidate.

I intend to support the nominee of this convention next November.

What do we have a President for?

Certainly not to do just those things which you and I as individuals would like to have done.

Certainly not to run this country exactly as he or she would like to run it.

If that is the way we feel, we should promptly scrap our Constitution and become a monarchy.

Until we reach that state of political depravity, however, the President of the United States will be required to perform the duties of the office as set forth by our Constitution and to administer laws and carry out programs as laid down by the Congress.

In carrying out programs and administering laws as determined by the Congress, the President will necessarily use the great powers which originally were vested in the Congress but which have long since been delegated to the executive branch.

There are some Republicans who still insist that Congress rescind these delegations of authority.

Let us not kid ourselves, however. The next President, whether Republican or Democrat, and regardless of race, creed, color or sex, is not going to recommend that Congress rescind the powers that have been delegated to the White House over the past century.

In view of this situation, it is far more important to elect a person of integrity and ability to the Presidency—one who owes allegiance to no special interests—either domestic or foreign—one who will conscientiously perform the duties of the office as prescribed by the Constitution—than it is to elect one on the premise that he or she may agree with our particular viewpoints.

I have definite ideas as to the qualifications our candidate for President should have. I say unequivocally that the candidate I will propose most nearly meets that criteria.

1. A President should have integrity. Whether dealing with foreign nations or the folks at home, integrity is a priceless asset. My candidate stands ace high in this respect.

2. A President should have ability. Good intentions alone are not enough. We don't want the floors of the White House paved with good intentions.

If my candidate does not have ability, then the 44 universities and colleges that have awarded her degrees based solely on merit have been wrong.

3. A President should have had wide experience in government.

Well, if 24 years' experience on the roughest, toughest, committees of the Congress—Defense, Space, Appropriations, Government Operations and Rules don't qualify my candidate then the other candidates whose names are being submitted to you cannot possibly be qualified for none of them can approach her record.

4. A President should have courage—courage to stand for the right when it may not be popular to do so—courage to stand for decency in the conduct of public affairs—courage to stand alone if necessary against formidable odds.

Does my candidate have this kind of courage?

I can refer you to several high ranking officers of the U.S. Armed Forces who have learned from experience that she is ably qualified in this respect.

As a sincere testimonial to her courage the Reserve Officers Association has recently designated her as "Minute Man of the Year"—the first time that this great honor has ever been conferred upon a person of her sex.

5. A President should have commonsense.

My candidate stands par excellence in this respect.

Time and again I have watched her keep her head "when all about her were losing theirs" and blaming it on everyone but themselves.

She wants to get things done that ought to be done—and she wants them done right.

She does not panic when things don't go to suit her. She just keeps on headed for her goal—which at this moment is the Republican nomination for the Presidency.

We need a candidate that does not panic in a crisis, not even a campaign crisis.

Nor should we support a candidate just because we are partial to any particular industry either at home or abroad. We don't want an industry in the White House. We want a living, capable, conscientious human being.

We want to nominate and elect a President who will promote the interests of our Nation both at home and abroad with impartial consideration for all.

We want a candidate who enjoys the confidence of people in all walks of life.

The one I shall nominate has demonstrated time and again that she "can walk with kings nor lose the common touch."

She never forgets her own people and the glare of glory has never turned her head.

The record majorities which the people of her home State have given her with each passing election are eloquent testimony to this trait of her character.

Her conduct during this campaign has been rather unusual. She has not neglected her work in the Senate to chase down delegates to this convention. The job she was elected to do has come first.

Running solely on her record and her qualifications for the office, she has spent no money for advertising—has hired no paid workers—has made no promises—and will have nothing to do with the wheeling and dealing—the trading and raiding practices which I understand have sometimes been used in political campaigns.

I now ask you two questions:

Do you want the United States to have good government? If you do—then vote for the candidate best qualified to give good government.

Do you want to win the November election? If you do—then vote for the candidate who enjoys the confidence and respect of all people and who can get the votes necessary to win.

I am now proud to nominate that candidate—Senator MARGARET CHASE SMITH of the State of Maine.

CONSTRUCTION AT CERTAIN MILITARY INSTALLATIONS—CONFERENCE REPORT

Mr. STENNIS. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 10300) to authorize certain construction at military installations, and for other purposes. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The legislative clerk read the report.

(For conference report, see House proceedings of July 21, 1964, pp. 15913–15920, CONGRESSIONAL RECORD.)

The PRESIDING OFFICER. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

Mr. STENNIS. Mr. President, I move the adoption of the conference report, and in connection therewith I have a brief statement to make.

The report was signed by all conferees on the part of the House and the Senate and has been agreed to by the House.

In regard to the net money figures in the bill, the sum total agreed to in conference is $1,534,994,000, which is only $13,162,000 above the amount granted by the Senate and $55,672,000 below the amount of the House-passed bill, for a net reduction of about $316 million below the amount requested.

Of the 80 points of difference between the Senate and the House versions of the bill, the House receded on 67 and the remainder were settled with little difficulty, as can be seen from the relatively small increase over the amount granted by the Senate.

There were no major changes made in the Senate-passed bill by the conferees. The Senate conferees receded only on those items where additional evidence seemed to indicate the projects were sound and to the advantage of the Government. This slight increase consists almost entirely of projects at six locations; namely, two academic facilities for the Army, two relocation projects which will permit a savings to the Government, an aircraft rework hangar, and three operational items at Roosevelt Roads, Puerto Rico.

There is one language provision that I wish to mention, and that is section 605 of the general provisions. This is an annual provision that has been carried in the bill for several years and requires that contracts for construction provided for in the bill be executed under the jurisdiction and supervision of the Corps of Engineers, Department of the Army, or the Bureau of Yards and Docks, Department of the Navy. This year the House modified the language to require this work to be divided between these two construction agencies on an equal basis when practicable. The Senate Committee did not consider this to be a practical amendment and deleted it. Principally involved is the construction for the Air Force, of which 70 percent is now performed by the Corps of Engineers and 30 percent by the Bureau of Yards and Docks. The Engineers have more offices located throughout the interior of the country than the Bureau of Yards and Docks, the latter being generally located along the coast. Thus, the Corps of Engineers is generally more strategically located to handle the work of the Air Force. Had the House language prevailed, it would have required, at least in theory, an increase in personnel for the Bureau of Yards and Docks and perhaps the opening of additional offices, with a comparable reduction in the Corps of Engineers. The House conferees insisted, however, that some addition to the annual language of section 605 was necessary to establish a more competitive spirit between the two construction agencies and to secure the most economical cost to the Government. Therefore the conferees agreed on compromise language which in effect permits the department or agency requiring such construction to select either of the construction agencies, as long as such selections will not result in any increased cost to the United States. The Senate conferees agreed with the understanding that the legislative history be established through the report of the managers, that this provision and the compromise language would not be so interpreted as to require the Department to disregard standards of economy and efficiency for the purpose of achieving statistical equality, and with a further understanding that the Office of the Secretary of Defense will prescribe the standards and the manner in which they will be applied.

Mr. President, I am confident the results achieved are sound and that the construction needs of the military and the defense agencies have been adequately provided for in fiscal year 1965.

I move the adoption of the report.

The PRESIDING OFFICER. The question is on agreeing to the conference report.

The report was agreed to.

ORDER FOR ADJOURNMENT TO 11 A.M. TOMORROW

Mr. MANSFIELD. Mr. President, I ask unanimous consent that when the Senate adjourns tonight, it adjourn to meet at 11 o'clock tomorrow morning.

The PRESIDING OFFICER. Without objection, it is so ordered.

ECONOMIC OPPORTUNITY ACT OF 1964

The Senate resumed the consideration of the bill (S. 2642) to mobilize the human and financial resources of the Nation to combat poverty in the United States.

Mr. YARBOROUGH. Mr. President, in 1946 Congress declared:

> It is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy * * * to coordinate and use all its plans, functions and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production and purchasing power.

These words are from the policy statement of the Employment Act of 1946. Today, we are considering the most important public welfare proposal to come before Congress in the 18 years since the passage of the Employment Act. The Economic Opportunity Act of 1964 is a logical extension of the 1946 legislation.

With the enactment of this bill it will be "the policy of the United States to eliminate the paradox of poverty in the midst of plenty in this Nation by opening to everyone the opportunity for education and training, the opportunity to work, and the opportunity to live in decency and dignity. It is the purpose of this act to strengthen, supplement, and coordinate efforts in furtherance of that policy." The above quotation is from "Findings and Declaration of Purpose," section 1, Economic Opportunity Act of 1964.

The Council of Economic Advisers defines poverty as the inability to satisfy minimum needs. Using income of $3,000 as a standard for a 4-person family and applying this to 1962 data, they find 20 percent of all families living in poverty. Three thousand dollars a year for a 4-person family would average $750 a year per person. The Council recognizes that the use of the House of Representatives and twenty-five thousand seven hundred and fifty copies shall be for the use of the Senate.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. HAYS. I yield to the gentleman from Iowa.

Mr. GROSS. I assume that at least one copy of the Constitution here authorized to be printed will be made available to the Supreme Court?

Mr. HAYS. The gentleman will receive 180 copies for his use. He can send one to each member of the Supreme Court if he likes.

Mr. GROSS. I will be delighted to send one to each member.

The House concurrent resolution was agreed to.

A motion to reconsider was laid on the table.

ISSUANCE OF APPROPRIATE IDENTIFICATION CARD TO THE SPOUSE OF EACH MEMBER OF THE HOUSE OF REPRESENTATIVES

Mr. HAYS. Mr. Speaker, by direction of the Committee on House Administration I call up House Resolution 578 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

Resolved, That the Committee on House Administration shall issue to the spouse of each Member of the House of Representatives an appropriate identification card.

The resolution was agreed to.

A motion to reconsider was laid on the table.

FEDERAL RESEARCH AND DEVELOPMENT PROGRAMS

Mr. HAYS. Mr. Speaker, by direction of the Committee on House Administration, I call up House Resolution 638 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

Resolved, That there be printed for the use of the Select Committee on Government Research, House of Representatives, one thousand two hundred additional copies of part 1 of the hearings entitled "Federal Research and Development Programs", held by that committee during the current Congress.

With the following committee amendment:

Line 3, strike out "one thousand two hundred" and insert "eight hundred and fifty".

Line 3, strike out "of part 1" and insert "each of parts 1 and 2".

The committee amendment was agreed to.

A motion to reconsider was laid on the table.

PRINTING OF ADDITIONAL COPIES OF PUBLIC LAW 272, 88TH CONGRESS

Mr. HAYS. Mr. Speaker, by direction of the Committee on House Administration, I call up House Resolution 644 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

Resolved, That there shall be printed for the use of the House Document Room eight thousand additional copies of Public Law 272, Eighty-eighth Congress, entitled "To amend the Internal Revenue Code of 1954 to reduce individual and corporate income taxes, to make certain structural changes with respect to the income tax, and for other purposes."

The resolution was agreed to.

A motion to reconsider was laid on the table.

CALL OF THE HOUSE

Mr. GROSS. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 57]

Addabbo	Gilbert	Murphy, N.Y.
Ashmore	Grabowski	Norblad
Avery	Gray	O'Brien, Ill.
Bass	Halpern	Passman
Bates	Healey	Pool
Brock	Hemphill	Powell
Bromwell	Hoffman	Rains
Brooks	Holland	Reifel
Brown, Calif.	Jarman	Roberts, Ala.
Brown, Ohio	Jensen	Roberts, Tex.
Bruce	Jones, Ala.	Rogers, Colo.
Cameron	Kee	Rooney, N.Y.
Carey	Kelly	Rosenthal
Celler	Keogh	St. Onge
Chenoweth	King, Calif.	Schwengel
Davis, Tenn.	Latta	Sheppard
Delaney	Long, Md.	Shriver
Derwinski	Mathias	Staebler
Diggs	May	Taft
Elliott	Meader	Thompson, N.J.
Ellsworth	Miller, N.Y.	White
Farbstein	Morrison	Wilson, Bob
Fogarty	Morton	Wright
Ford	Multer	

The SPEAKER. On this rollcall 360 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

INTEREST EQUALIZATION TAX ACT OF 1963

H.R. 8000

Mr. MILLS. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 8000) to amend the Internal Revenue Code of 1954 to impose a tax on acquisitions of certain foreign securities in order to equalize costs of longer-term financing in the United States and in markets abroad, and for other purposes.

The SPEAKER. The question is on the motion offered by the gentleman from Arkansas.

The motion was agreed to.

IN THE COMMITTEE OF THE WHOLE

Accordingly, the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill H.R. 8000 with Mr. GARY in the chair.

The Clerk read the title of the bill.

By unanimous consent, the first reading of the bill was dispensed with.

The CHAIRMAN. Under the rule the gentleman from Arkansas [Mr. MILLS] will be recognized for 1½ hours and the gentleman from Wisconsin [Mr. BYRNES] will be recognized for 1½ hours.

The Chair recognizes the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Chairman, I yield myself 15 minutes.

Mr. Chairman, the bill, H.R. 8000, initially introduced on August 8, 1963, after thorough consideration, including public hearings and many hours in executive session, was reported by your Committee on Ways and Means on December 16, 1963.

It was not possible in the closing days of the last session of Congress to bring it to the House for consideration.

This is the earliest date that we have been able to schedule this for the consideration of the House.

Much has been said, Mr. Chairman, about particular aspects of the bill itself. Sometimes I think these statements have been made with respect to the bill without properly relating the bill itself and what it attempts to do to the overall situation which faces this country. Before going into the details of the bill itself, Mr. Chairman, let me briefly refer to the overall problem and the situation that brings this bill and other measures of this nature to the consideration of the membership of the House.

Let us look, first, therefore, at the forest itself before we begin to identify particular trees within the forest that some might desire were not there.

No challenge that confronts the economy of this Nation is more pressing than the need to stem the heavy drain of gold and dollars from our shores. The U.S. balance of payments has consistently been in a deficit position since 1957 and with the exception of that one year we have had a deficit in our balance of payments since 1949. The deficit attributable to the last 6 years has resulted in our gold reserve going down by more than $7 billion. For the entire period the figure is $9 billion.

This effort to stem this gold and dollar drain has required and will require intense effort in many directions. But no single measure can make a greater contribution over the critical period immediately ahead than H.R. 8000. It is no exaggeration to say that the continued stability of the dollar in the years ahead, and with it the prospects for orderly growth of trade and commerce throughout the free world, is at stake in our consideration of this bill. That is why I am certain that you will want to support it.

IMPROVEMENTS MADE IN BALANCE OF PAYMENTS

An examination of our balance-of-payments position indicates that we reached a peak deficit in 1960 of almost $4 billion. It was shortly after this that the late President Kennedy began a broad program designed to restore equilibrium to our international accounts. The problem has not been an easy one to meet, however, because we were determined not to strengthen our dollar position abroad at the expense of restrictive domestic policies likely to lead to a high rate of unemployment at home.

House of Representatives

THURSDAY, MARCH 5, 1964

The House met at 12 o'clock noon.

The Reverend John Jolley Howard, rector, Emmanuel Episcopal Church, Hampton, Va.; the national chaplain of the American Legion, offered the following prayer:

"Our God to whom we turn
When weary with illusion,
Whose stars serenely burn
Above this earth's confusion.
Thine is the mighty plan,
The steadfast order sure
In which the world began,
Endures and shall endure."

Heavenly Father, eternal and ever blessed God, who hast ordered all things according to Thy holy will, and who art the guide and strength of all who walk uprightly, shine upon the pathway of these Thy servants, and fill them with Thy wisdom and understanding so they may do their duties to Thy honor and glory, and for the benefit of this great Nation.

Accept, O Lord, this special intercession of gratitude for those of this body who served this Nation in the Armed Forces during the conflicts of this century. Thou hast preserved them, in their dangers and jeopardy of life, so that they can further contribute to the welfare of the country they so valiantly fought for.

O, Lord hear our prayer, and let our cry come unto Thee, and save Thy servants who putteth their trust in Thee. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

COMMITTEE ON ARMED SERVICES

Mr. VINSON. Mr. Speaker, I ask unanimous consent that the managers on the part of the House on the bill H.R. 9637 have until midnight to file a conference report.

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

CORRECTION OF ROLLCALL

Mr. WILSON of Indiana. Mr. Speaker, on rollcall No. 55 I am recorded as absent. I was present and answered to my name. I ask unanimous consent that the permanent RECORD and the Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Indiana?

There was no objection.

MY VOTE ON THE CIVIL RIGHTS BILL

(Mr. CEDERBERG asked and was given permission to address the House for 1 minute to revise and extend his remarks and to include extraneous matter.)

Mr. CEDERBERG. Mr. Speaker, today I am sending a letter to the chairman of the Democratic State Central Committee in Michigan, Mr. Zoltan A. Ferency. The letter reads as follows:

Mr. ZOLTAN A. FERENCY,
State Chairman, Democratic State Central Committee, Lansing, Mich.

DEAR MR. FERENCY: I have read with interest the news report of the resolution of the Democratic State Central Committee condemning my vote on the civil rights bill by falsely listing me as voting directly opposite to the manner in which my vote is officially recorded. I have always viewed with skepticism most statements coming from the Democratic State Central Committee and your recent action confirms this.

If you would check the CONGRESSIONAL RECORD on page 2708, dated February 10, 1964, you will find that on rollcall 32 I am recorded as voting for the civil rights bill—and not against it as your committee resolution indicates.

Inasmuch as there were three times as many Democrats in Congress voting against civil rights as Republicans, I respectfully suggest, furthermore, that you concentrate your efforts within your own party. A good place to start would be with the Democratic House leadership as I note the Democratic whip voted in opposition along with eight Democratic chairmen of committees.

Sincerely,

ELFORD A. CEDERBERG.

PRINTING OF VETERANS BENEFITS CALCULATOR

Mr. HAYS. Mr. Speaker, by direction of the Committee on House Administration I call up House Concurrent Resolution 29, and ask for its immediate consideration.

The Clerk read the concurrent resolution, as follows:

Resolved by the House of Representatives (the Senate concurring), That after the conclusion of the second session of the Eighty-eighth Congress there shall be printed fifty thousand two hundred and forty copies of a Veterans' Benefits Calculator prepared by the Veterans' Affairs Committee of which two thousand copies shall be for the use of the Veterans' Affairs Committee, two thousand copies for the use of the Committee on Finance, thirty-seven thousand four hundred and eighty-five copies for the use of the House of Representatives, and eight thousand seven hundred and fifty-five copies for the use of the Senate.

The House concurrent resolution was agreed to.

A motion to reconsider was laid on the table.

PRINTING OF HOUSE DOCUMENT NO. 104, 1ST SESSION, 88TH CONGRESS, ENTITLED "OUR FLAG"

Mr. HAYS. Mr. Speaker, by direction of the Committee on House Administration I call up House Concurrent Resolution 247, and ask for its immediate consideration.

The Clerk read the House concurrent resolution, as follows:

Resolved by the House of Representatives (the Senate concurring), That the publication entitled "Our Flag", published by the Office of Armed Services Information and Education, Department of Defense, including historic flags of the United States, flags of other nations, and other appropriate standards and emblems, be printed with illustrations as a House document; and that three hundred thousand additional copies be printed, of which two hundred thousand shall be for the use of the House of Representatives, and one hundred thousand shall be for the use of the Senate.

With the following committee amendment:

Strike out all after the enacting clause, and insert the following:

"That there be printed three hundred thousand additional copies of House Document Numbered 104, 1st session, 88th Congress, entitled 'Our Flag,' of which two hundred thousand shall be for the use of the House of Representatives, and one hundred thousand shall be for the use of the Senate."

The committee amendment was agreed to.

The House concurrent resolution was agreed to.

The title was amended to read as follows: "Providing for printing additional copies of House Document 104, Eighty-eighth Congress."

A motion to reconsider was laid on the table.

PRINTING OF CONSTITUTION OF THE UNITED STATES AS AMENDED TO JANUARY 23, 1964

Mr. HAYS. Mr. Speaker, by direction of the Committee on House Administration I call up House Concurrent Resolution 266, and ask for its immediate consideration.

The Clerk read the House concurrent resolution, as follows:

Resolved by the House of Representatives (the Senate concurring), That the Constitution of the United States, as amended to January 23, 1964, together with the Declaration of Independence, be printed as a House document, with an index, in such form and style as may be directed by the Joint Committee on Printing; and that one hundred and six thousand six hundred additional copies be printed, of which eighty thousand eight hundred and fifty copies shall be for

Improvements have been made in our international accounts by directing attention to virtually every segment of our balance of payments.

First. There has been an emphasis on fiscal measures designed to stimulate the economy and increase the attractiveness of investments here for both American and foreign funds. The tax reduction which we have recently provided, together with the investment credit in the 1962 legislation, have, of course, been the principal measures in this area. But these measures will take time to become fully effective.

Second. We have encouraged policies of responsible price and wage behavior in order to strengthen our competitive position abroad.

Third. Export promotion programs have been undertaken.

Fourth. A procedure has been set up for substantially reducing Government spending of dollars abroad.

The program of reducing the balance-of-payments deficit since 1960 has achieved considerable success with the critical exception of the outflow of private long-term capital. Thus, the deficit in our balance of payments decreased from the high of almost $4 billion in 1960 to $2.4 billion in 1961 and $2.2 billion in 1962. However, the trend in the balance of payments in these years can be seen more accurately by examining the balance in the regular transactions—which exclude special intergovernmental transactions.

The average deficit in 1958–60 on regular transactions was about $4 billion. These regular transactions consisted of about $2 billion of net receipts in commercial transactions and $4 billion of net outpayments for defense and economic aid abroad and net private capital outflows—long term and short term—of about $2.5 billion.

During the next 2½ years there was an overall improvement of about $1 billion in the balance of commercial goods and services. Export promotion, domestic price stability and a booming European economy resulted in our exports rising more than the increase in imports generated by the domestic economic business expansion. In addition, earnings on service accounts increased sharply.

In addition, during this period net military outlays abroad were reduced by over $800 million. The Defense Department economized on its oversea expenditures despite the impact of rapidly rising prices in most of the countries where our bases are located. In addition, agreements with West Germany and Italy resulted in additional military purchases in the United States offsetting in whole or in part Defense Department expenditures in those countries.

Economies are also being made in the spending of dollars overseas for foreign aid.

THE RECENT OUTFLOW OF PRIVATE CAPITAL

The improvements in our commercial balance and net military outlays should have reduced our deficit on regular transactions by the middle of 1963 by about $2 billion. Instead, in the second quarter of 1963 the deficit on overall transactions was at an annual rate of almost $5 billion—a rate which could not have been sustained for long without calling into question the stability of the dollar.

The fact was that our improvement in trade and the reductions in Government spending overseas were being more than offset by an accelerating capital outflow, particularly by purchases of foreign stocks and bonds—one area that the broad balance-of-payments program had up to that time passed by. Purchases of new foreign securities reached an annual rate of $2 billion in that quarter—almost double the 1962 rate and three times the 1961 rate—and the outflow of short-term funds was $2.5 billion on an annual rate basis.

It does us no good to improve our commercial accounts and net military outlays abroad if this is to be offset or more than offset by increased sales of foreign securities in this country.

Unfortunately, there were no signs that the flood of new foreign security issues which came into this country through the second quarter of 1963 would of its own accord abate. Foreign businessmen and foreign local governments were becoming more and more aware of the efficient marketing facilities in the United States and also of the relatively low rates of interest available here. In addition, as the production boom in the European market continued, business firms there were finding it more difficult to finance their growth from retained earnings because their costs are rising and their profit margin narrowing. As a result, they began to turn to the American market for more and more of the funds which they desired.

One might ask why do not the Europeans use their own money market to obtain their capital funds. Unfortunately, the European markets are not yet as efficiently organized as ours and their peoples are not accustomed to devoting their savings to the capital requirements of their countries to the same extent that is true here in the United States. As a result, capital costs for anyone going to most European money markets are substantially above the prices at which capital can be obtained here in the United States.

Still another factor accounting for the flood of European securities in this country is the fact that U.S. underwriters are becoming more and more familiar with the foreign securities. The same can also be said of American investors because of the large volume of these securities now being offered in this country. Moreover, the relatively high rate of return on these securities, relative to domestic outlets, makes them quite attractive to the American investor. In addition, the American investor's memory of the unfortunate experience with foreign securities in the 1920's and 1930's has been dimmed by time and now appears not to be a factor in holding down American investments in foreign securities. Still another reason for this increase in foreign securities is the ready convertibility of currencies which has removed the fear of obtaining payment in the United States of income and principal on these securities.

ALTERNATIVES FOR STEMMING OUTFLOW OF CAPITAL

Now let us look at the alternatives which have been available to us if we were to stem this abnormal outflow of capital from the United States.

First, we could have established direct controls over foreign securities marketed here. We could, for instance, have established quotas by country and either allowed the countries to determine how these quotas would be filled, or established some machinery on our own part to determine this. Direct controls of this type, however, are contrary to our free market philosophy and something that I, for one, would be most reluctant to see us use. Any time controls of this type are used, questions of discrimination are sure to arise in determining who is to be allowed to fill any given quota.

On the other hand, we could have tried to meet the problem by sharply raising our long-term interest rate here at home. By drastically tightening credit across the board, this would have increased the capital costs for foreigners coming to the U.S. money market. In this case, however, the cure would be worse than the disease. Not only would this cut down the extent to which foreigners would use the U.S. money market, but it could be expected to have the same effect on domestic investments as well. Certainly at this time when we are bending every effort to increase our rate of growth here in the United States we do not want to make it more difficult for American businesses to obtain funds for expansion of plant and facilities. Moreover, I for one do not want to see an increase in the mortgage payments which must be made by the average homeowner. Nor do I want to see increased capital costs for the small businessman.

This route of higher interest rates actually is the answer we have had to follow in stemming the outflow of short-term money. Here the Federal Reserve has increased the discount rate which resulted in an increase at midyear of roughly a half a percent in the interest rate on short-term funds. These funds, however, are not so important to the growth of our economy nor to our homeowners.

METHOD OF STEMMING CAPITAL OUTFLOW PROVIDED BY BILL

The tax which this bill provides is designed to increase the interest costs of foreigners seeking capital in the American market—in substantialy the same manner as increasing the long-term interest rate—without having this adverse effect on long-term domestic investments.

This result is obtained by imposing a tax, called the interest equalization tax, on purchases and other acquisitions by U.S. persons of foreign securities but only when they obtain these securities from a foreign person—not from another U.S. person. In the case of bonds the tax is graduated according to the length of time still remaining at the time of purchase before the bond matures. No tax at all is imposed if this period is less than 3 years, since this is in the range of short-term interest rates for which an answer has been sought by increasing the short-term interest rate directly. For bonds with a maturity of 3 to 3½ years, the tax rate is 2.75 percent and from here it ranges up to 15 percent for bonds with a period to maturity of 28½ years or more. For stocks, since there is no maturity date, the tax rate is the same 15 percent which applies in the case of bonds having a long period to maturity.

This schedule of rates is calculated to be the equivalent of raising the interest rate for this foreign capital in the U.S. market by 1 percent. From the standpoint of an American considering the purchase of an outstanding security from a foreign person, this tax will reduce the yield of that security by about 1 percent, making the yield available on alternative domestic investments relatively more attractive. On the other hand, looked at from the standpoint of the foreign person raising capital here, the tax will raise his cost of obtaining this capital in the U.S. market by this same 1 percent.

The advantage of using a tax of this type rather than direct quotas is that it does not interfere with the market decisionmaking in the manner in which direct quotas or controls would. This tax still leaves to the market the decisions as to which foreign securities—given this additional cost—will still be floated on the American market. In other words, this tax, as distinct from quotas or direct controls, still makes it possible for us to retain the free enterprise market mechanism while nevertheless reducing the use of the American money market as a source for foreign capital.

OTHER ACTIONS BEING TAKEN

It should be emphasized that this is only one of numerous devices which are being used to improve the balance in our international accounts, albeit a crucial one.

The late President Kennedy in his special balance-of-payments message announced that the United States had made a standby borrowing arrangement with the International Monetary Fund. The Federal Reserve also had announced an increase in discount rates which, as I have indicated, were designed to raise interest rates for short-term funds. Additional steps have been taken to encourage exports and our unfavorable balance on tourism has been given increased attention in an effort to curb its growth. In addition, new goals for the reduction of the Government's expenditures abroad were established with the objective of reducing these expenditures in 1965 to a level of $1 billion below the level of 1962.

TAX NEEDED ON STOCKS AND OUTSTANDING SECURITIES

While most of the new foreign security issued in 1962 and 1963 have been in the form of bonds, there has also been a growing interest in the marketing of new foreign stocks in the United States as well. In any event, it would have been of no avail to us if we were to curb the outflow of capital in the form of new foreign bond issues if the investors thereupon shifted to purchases of new foreign stock. Similarly, it would be of no advantage to us if we curbed the outflow of private capital into new foreign bonds and stocks only to have the U.S. investors shift to purchases of outstanding foreign securities.

Net U.S. purchases of outstanding foreign stocks and bonds amounted to $112 million in the first half of 1963. On an annual rate basis this represents an unfavorable balance of $224 million. In the third and fourth quarters there was a favorable net balance of $136 million—almost all of which occurred after the announcement of this tax. On an annual rate basis this is a favorable net balance of $272 million in the last half of 1963 and from the unfavorable experience in the first half of the year, represents a shift of almost $500 million.

These are the reasons why it is important to include both new and outstanding issues and also issues of both bonds and stocks.

EFFECTIVE DATE

When the late President Kennedy sent his balance-of-payments message to Congress this last summer, he asked that the interest equalization tax he proposed become effective immediately. The very substantial adverse balance of payments in the second quarter of 1963 of almost $5 billion at an annual rate made this imperative. Moreover, had the proposal not contained an immediate effective date we could have expected a still much larger flood of foreign securities to be sold in this country in the third quarter in an attempt to get these transactions under the wire before the new tax applied. It was imperative to forestall a wave of anticipatory borrowing in our market as the proposal was being discussed.

Both to reverse the trend of the second quarter and to forestall a still larger volume of sales of foreign securities in this country in the third quarter, this bill has a general effective date of July 19, 1963. Thus the tax generally applies to transactions occurring after that date. However, for securities listed on national exchanges, the effective date has been made August 17, 1963, in order to give the exchanges an opportunity to adjust to the new procedures.

Making investors aware of the fact that further purchases of foreign securities from foreigners after July 18 would be subject to the proposed tax has resulted in a dramatic improvement in our balance-of-payments situation. This is a concrete demonstration of the beneficial effect this bill can be expected to have on our international account.

American purchases of new foreign security issues in the second half of 1963 declined by $1.3 billion on an annual-rate basis from the level in the first half. Trading in outstanding foreign securities also shifted substantially in our favor and we achieved in this area a balance-of-payments savings of $500 million on an annual-rate basis between the first and second halves of 1963.

Largely as a result of this shift in capital outflow, the balance-of-payments deficit on regular transactions which had been at an annual rate of $4.5 billion in the first half of 1963, fell to an annual rate of $1.6 billion in the second half of 1963—60 percent of this reduction resulted from a smaller net outflow in foreign securities since July 18, 1963. Gold outflow has also been reduced. Between that date and February 19, 1964, we lost $170 million of gold of which $35 million went into domestic industrial uses. In 1961 the loss was $857 million. In 1962 the gold loss was $890 million.

This is a clear demonstration both of the need for retaining the effective date of July 19 or August 17 which is in the bill, and also a demonstration of the effectiveness of this proposed tax.

The American people are aware of what is involved. They are expecting us to take advantage of an opportunity to bring improvement to that problem. To leave unresolved this big problem is impossible. If others have alternatives let them come forward with such an alternative, if there is one, that will do this job and———

Mr. CURTIS. Balance the budget.

Mr. MILLS. Yes. I heard the gentleman from Missouri say "Balance the budget." What are you going to do in the meantime until you and I balance it? Let the outflow of capital proceed on the basis of about $5 billion a year for the next 12 months?

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I will be glad to yield.

Mr. CURTIS. I would say that the Congress has to do what I have been trying to do and I know that the gentleman has been trying to do, which is to move in on expenditure reform and not to accept a budget that is obviously, by its nature, not a practical budget and not do what we have done in just the past few weeks, which is continue to vote money beyond our revenues.

Mr. MILLS. I agree on the advisability and the desirability of balancing the budget, but I also want to call the gentleman's attention to the fact that in some of the years of the past when we have had very high capital outflows from this country we had a balanced budget.

Mr. CURTIS. What year? Would the gentleman supply what year? I do not recall that.

Mr. MILLS. It was in 1960 that we had a budget surplus but a very large deficit in our balance of payments.

Mr. CURTIS. In 1960. The gentleman is correct. That is right.

Mr. MILLS. And in 1960 we reached the highest balance-of-payments deficit in recent times. So balancing the budget does not necessarily have—as important as it is—the effect that I think my friend from Missouri envisions it to have.

Mr. GROSS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. Yes, I will yield.

Mr. GROSS. Speaking of imbalance in payments, who is paying for all of this beef coming into the country that wrecked our livestock market?

Mr. MILLS. Americans are paying for the beef being imported.

Mr. GROSS. That is true. A lot of it.

Mr. MILLS. Yes.

Mr. GROSS. Does not this have an effect on the imbalance in payments?

Mr. MILLS. The imbalance in payments is not created by our balance in our trade. You and I know that, because we sell more abroad than we import. This has a wholesome effect on the balance of payments. I am sure my friend from Iowa wants us to do everything humanly possible in all areas—such as in the area of capital outflows—to improve this balance-of-payments situation because I know he considers it one of our major problems.

Mr. GROSS. Yes. If the gentleman will yield further, I have been trying to take the road the gentleman suggested we take when we brought in the tax reduction bill, but I found out that there are some people in the House that do not interpret his statement on that particular road the same way I do.

Mr. MILLS. The gentleman can very safely take the road I suggested he take here and support this bill and perform a great public service in the process.

Mr. GROSS. How about the other road the gentleman suggested with respect to the tax reduction bill? Is the gentleman going to take one road or the other?

Mr. MILLS. I am thoroughly convinced that was the correct road to take.

Mr. GROSS. I wish the gentleman would give me some company.

Mr. MILLS. I hope the gentleman will give me some company on this proposition today.

GENERAL EXPLANATION OF BILL

Mr. Chairman, let me turn now to an explanation of the salient features of the bill. I have already outlined for you how the tax ranges on debt obligations from 2.75 percent where the maturity is 3 or more years away, up to 15 percent where the maturity is 28½ years or more away, and that this latter 15-percent rate is also the rate applying to stocks.

I want to emphasize that this tax applies only to purchases and other acquisitions by U.S. persons; that is, U.S. citizens, residents, domestic partnerships, domestic corporations, and domestic estates and trusts. Moreover, it applies only when they buy a foreign security from a foreign person. When a U.S. person acquires a foreign security from another U.S. person the tax does not apply. This means that individual American investors can freely buy and sell foreign securities so long as the trading is among Americans and a substantial volume of this type of trading occurs every day. Moreover, the national security exchanges as well as the over-the-counter dealers have made it easy to deal in securities purchased from Americans by separating these transactions in foreign securities into what is known as the regular market as distinct from the special market which represents foreign securities purchased generally from foreign persons.

EXEMPTIONS

Your committee's bill contains a series of exemptions designed primarily to give assurance that our export effort and the normal reoccurring financing of international business will not be hampered by this tax. These exemptions which I shall explain to you in just a moment relate primarily to export paper, commercial bank loans, and short-term paper.

The period which elapsed after July 18, and before your committee acted on this bill, made it possible for the committee to observe the effects this tax could be expected to have on various groups in the United States, showing areas where the original recommendations would have created hardships and inequality. Your committee used this time to make adjustments to the originally proposed bill to alleviate these hardships and inequalities while still maintaining the basic concepts of the bill as recommended by the administration.

EXEMPTION FOR INTERNATIONAL MONETARY STABILITY

One exemption under the bill, known as the international monetary stability provision, would enable the President to exempt new security issues of a foreign country from tax where he determines that application of the tax to such securities imperils, or threatens to imperil, the stability of the international monetary system. This provision of the bill takes account of the very unusual set of circumstances evidenced in the case of Canada. It appears that the effect of the tax as applied to Canada—because of the exceptionally close integration of our capital markets and the need for Canada to borrow abroad to cover a sizable current account deficit—might be to reduce too abruptly the flow of U.S. capital, set off a speculative flow of funds from Canada, and thereby adversely affect Canadian exchange rate stability.

In view of this situation, the administration believed that the bill should contain a provision enabling the President to exempt new security issues of a foreign country where he determines the application of the tax might threaten international monetary stability. This is consistent with the treaty obligations of the United States to collaborate with the International Monetary Fund to promote exchange stability.

Your committee has received assurances from the Secretary of the Treasury that, under present circumstances, new issues of Canadians are the only securities which he would recommend that the President exempt from tax. The exemption of Canadian new issues proceeds upon the assurance that Canadian borrowings in this country will return to their historical levels, because Canada has undertaken to assure that borrowings in the United States will take place only to the extent necessary to permit Canada to maintain equilibrium in its reserve position. Your committee has also been assured that the administration will follow closely the account volume of Canadian borrowing in our markets. We can thus be assured that the Canadian exemption will not undermine the purpose of the tax.

EXEMPTIONS FOR EXPORTS

The next category of exemptions is concerned with export transactions. The bill contains a series of export exemptions which generally have the effect of exempting debt obligations from tax if they are obtained by U.S. persons in connection with the extension of credit to foreign purchasers of U.S.-produced goods. The reason for this exemption is, I believe, self-explanatory; namely, to be sure that the tax does not interfere with our favorable commercial balance. These export exemptions are as follows:

First. An exemption is provided for debt obligations which are guaranteed or insured in whole or in part by the Export-Import Bank or by other U.S. Government agencies or instrumentalities.

Second. An exemption is provided for the acquisition of a debt obligation from a foreigner in the course of selling goods produced in the United States if 85 or more percent of the purchase price in the related export transaction is attributable to the sale of U.S. property or to the performances of services by the U.S. person.

Third. An exemption is provided for the acquisition of stock or debt obligations from a foreigner if 30 percent or more of the purchase price in an export transaction is attributable to the sale of property produced in the United States by, and services performed by, the person who acquires the stock or debt obligation. However, this exemption is to be available only if 50 percent or more of the purchase price is attributable to the sale of property manufactured, produced, grown or extracted in the United States and services performed by U.S. persons, whether or not by the person acquiring the foreign security.

Fourth. The bill provides an exemption for the acquisition of debt obligations from a foreigner if the U.S. person making the loan and receiving the debt obligation can show that the proceeds of the loan will be used for the storage, handling, transportation, processing, packaging, or servicing of property produced by him in the United States.

EXEMPTION FOR COMMERCIAL BANK LOANS

The next category of exemptions is for commercial bank loans. The necessity for such exemptions is also tied in with export financing. In addition, the great bulk of the commercial bank loans fall within the category of loans for less than 3 years and, therefore, would, in any event, not be subject to this tax.

Your committee realizes that a generalized exclusion of this type, however, could be abused. Although this is not expected, your committee has provided in the bill for the collection of detailed information on the nature of, and trends in, bank lending to foreign persons. This information will provide a basis for determining whether a general exclusion of this character should be continued and if not for indicating the specific ways in which the general exclusion can be modified.

EXEMPTION FOR DIRECT INVESTMENTS

A fourth general category of exemptions provided by the bill is for direct investments abroad. Direct investments, as distinct from portfolio investments, cover those cases where the investor has a sufficient ownership in the foreign company to give him a substantial measure of control, or an important voice in management. Direct investment is defined in the bill as ownership of 10 percent or more of the voting stock of the foreign corporation. Decisions to make investments of this type are largely concerned with questions of market position and long-range profitability rather than interest rate differentials. Moreover, your committee in the Revenue Act of 1962 dealt with this subject at that time.

EXEMPTION FOR LESS DEVELOPED COUNTRIES

A fifth general category of exemptions is concerned with less developed countries. The bill exempts purchases of securities of less developed countries—including their political subdivisions—and of less developed country corporations from the application of this tax. All countries other than the developed countries of Western Europe, Australia, Canada, Japan, New Zealand, and South Africa may be designated by the President as less developed for this purpose.

This exclusion is designed to avoid cutting down the flow of private capital to nations with chronic capital shortages, urgent development needs, and limited capacity for foreign borrowing on normal commercial terms. The United States has long recognized a responsibility for assisting these nations in the struggle to achieve improved standards of living and the application of the tax to issues of these countries would work against that objective. Moreover, the outflow of portfolio capital to these areas has been quite limited, never exceeding $200 million a year in recent years and usually running closer to $100 million.

OTHER EXEMPTIONS

Your committee's bill also provides a series of other exemptions designed to deal with specific types of situations. These are concerned with insurance companies having foreign business, the procedure to be followed by underwriters and dealers in foreign securities, the treatment of labor unions and other exempt membership type organizations having foreign members, ores and minerals extracted and sold outside of the United States, acquisitions required by foreign law, and the treatment of foreign corporations which are controlled by Americans where trading on the American exchanges represents the principal market for the stock.

ADMINISTRATION OF TAX

I would like to turn now to a brief discussion of how the tax will be administered. Actually, we know the system will work since administrative and market procedures have been operating on this basis since this last July or August.

In practice, for new issues the tax will almost always be paid by the underwriter, as the first American purchaser. But certain procedures are necessary to identify when purchases in the market are made from foreigners. In the case of securities purchased on a registered national securities exchange, transactions will be permitted in the regular market only where the seller is a U.S. person. Other transactions through these exchanges will be treated as special contracts. Only if the broker indicates on a confirmation that the security was handled through the special contracts market will a tax be due on the purchase. Otherwise the purchaser can assume that the purchase was exempt from tax and no tax return would be required.

A U.S. person selling on one of these exchanges may file an individual certificate of American ownership with his broker on each transaction, or a blanket certificate of American ownership which will qualify all subsequent sales through the same account. Essentially the same treatment is available in the case of over-the-counter trading.

Where a U.S. person acquires a foreign security other than through a national securities market or through the over-the-counter market, where the regular and special markets procedures are used, the bill provides for the use of a certification procedure—a procedure which is already in current use. Receipt of a certificate of American ownership in connection with the acquisition of a foreign security is considered as conclusive proof of prior American ownership unless the person receiving it has actual knowledge that the certificate is false.

Tax liability in the case of the interest equalization tax is to be reported by the filing on a calendar quarter basis of returns covering taxable and certain other transactions occurring within the calendar quarter.

TERMINATION OF TAX

As previously indicated this bill is effective with respect to acquisitions of foreign securities after July 18, 1963; except that in the case of acquisitions made on a national stock exchange, the tax applies to purchases made after August 16, 1963. The tax is scheduled to apply only to purchases before January 1, 1966. This will give Congress an opportunity to see whether, at that time, the balance-of-payment situation has improved sufficiently so that a further continuation of the tax will become unnecessary.

OBTAINING 10-PERCENT INTEREST OVER 12-MONTH PERIOD

In any bill of this type which imposes an entirely new tax, problems arise as to the application of the tax in given situations. Your committee has, in fact, already made adjustments for several problems of this type presented during its consideration of the bill. Since it has completed action on the bill however, a new problem has been presented. This is a problem which the Treasury Department has recognized as needing correction and as one with respect to which it is understood it will make recommendations when this bill is considered by the other body.

As I have previously indicated the tax imposed by this bill is not intended to apply in the case of direct investments since these are not affected to any substantial extent by interest rate differentials but rather are largely dependent upon market prospects. In defining direct investments the bill provides that the tax is not to apply to acquisitions by a U.S. person of securities of a foreign corporation if immediately after the acquisition the person has a 10 percent or greater interest in the combined voting power of all classes of stock of the foreign corporation—or has a 10 percent or greater profits interest of the foreign partnership. The bill also provides an exemption for purchases where an individual acquires stock in a foreign corporation or partnership in a series, if at the end of the calendar year involved the person has a 10 percent or greater stock interest.

The problem presented arises where a U.S. person acquires the requisite 10-percent interest in a series of transactions over a 12-month period, but this 12-month period does not coincide with the calendar year. Your committee is aware of no reason why the requisite 10-percent interest has to be determined by looking only at a calendar year. The alternative of looking at any 12-month period would appear to achieve substantially the same result on a less arbitrary basis. It is hoped that this is a matter which will be considered by the other body.

CONCLUSION

Our balance-of-payments deficits must cease. Our gold losses must be stopped. In the last half of last year we made real progress toward these goals. The balance-of-payments deficit dropped to an annual rate of $1.6 billion—this following a first half year when the deficit was $4.5 billion on an annual basis. The poor performance of the first half was in large measure due to massive purchases by Americans of foreign securities. The sharply improved second half was in good measure due to the drop in the massive outflow of relatively low cost U.S. capital into foreign securities—in fact $1.8 billion of the $2.9 billion improvement was in this balance-of-payments account. The key element in this improvement—so critical to the continued strength of our currency in the markets throughout the world—lies in the bill now before us, H.R. 8000, the proposal for an interest equalization tax.

I would, therefore, urge you, in the greater public interest to support this bill and place yourself in a position to say that, "I have supported all efforts in the Congress of the United States to stop the flow of gold and the flow of dollars from the American shores."

Mr. BARRY. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from New York.

Mr. BARRY. I notice on the bottom of page 1 of the report the statement to the effect that on debt obligations with a shorter maturity than 3 to 3½ years no tax is imposed.

Mr. MILLS. For debt obligations with a shorter maturity than 3 years, that is correct. Let me explain briefly to the gentleman why that is the case. Any debt obligation of less than 3 years——

Mr. BARRY. I did not really want further information on that particular point, because I believe I understand the bill. However, could not someone incur such an obligation and then just keep on renewing it ad infinitum and thereby circumvent the intent of the legislation with reference to taxing these people?

Mr. MILLS. The interest rate on short-term bank borrowings is set by the going rate of interest for short-term money. As I have indicated previously the Federal Reserve is currently following the policy of maintaining a relatively high interest rate for short-term money. As a result it would hardly pay someone to avoid the tax by borrowing for short periods only to have to pay higher interest charges.

Mr. BARRY. If the gentleman will yield further, I note on page 2 of the report that the principal exclusions are listed to the bill.

Mr. MILLS. Yes, they are discussed in the report. These exclusions in my opinion are desirable in order to keep this tax from interfering with our export trade and in order to keep this tax from involving us in some instability of the monetary fund itself. Also, they are desirable in order to prevent the application of the tax in the undeveloped areas of the world.

Mr. BARRY. I assume that exclusion No. 5 does allow for investment in less-developed countries of the world and does preserve our efforts to get more capital flowing into the Alliance for Progress program?

Mr. MILLS. Exactly. That is the purpose of this exemption.

Mr. BARRY. If the gentleman will yield further, under exclusion No. 8 there is reference to investments of foreign membership dues by labor organizations and other exempt organizations. Would the gentleman elaborate upon that exclusion?

Mr. MILLS. Yes. We ran into a situation where some labor unions have members in foreign countries. They collect money of the foreign country from their members employed by companies in that country. Without this provision, investments of the funds collected from the foreign members would be taxed even though invested in some foreign country in which the members reside, because it is an American organization. This, of course, would not affect our balance of payments. We thought it was better to exclude that type operation.

Mr. BARRY. If the gentleman will yield further, in order to make the record clear, this does not mean that a large labor union here could collect dues and invest these funds abroad?

Mr. MILLS. Absolutely not.

Mr. BARRY. And as to other exempt organizations, this refers to other types of organizations in a similar sense having a foreign operation really identified as a U.S. operation, but it would not let out any other basic funds; is that correct?

Mr. MILLS. That is correct.

Mr. Chairman, I would like to insert in the RECORD at this point a listing of measures taken by the administration to meet the balance-of-payments problem, apart from the area of private capital outflow:

MEASURES TAKEN TO ELIMINATE BALANCE-OF-PAYMENTS DEFICIT

The administration has from its beginning in 1961 concentrated attention on several fundamental measures to enhance the efficiency of the American economy, to maintain price stability and to make the United States more attractive for the investment of United States and foreign capital, thereby basically improving our international competitive position. These long-range measures are:

1. Encouraging responsible wage bargaining and pricing policy through such measures as the wage-price guidelines.
2. Investment credit.
3. Liberalized depreciation allowance.
4. Tax reduction.

In addition, the administration has taken the following measures aimed specifically at eliminating the balance-of-payments deficit:

MEASURES INSTITUTED IN JULY 1963

1. Scheduled further reductions in military oversea expenditures to reduce the dollar drain $300 million.
2. Scheduled reductions of $200 million in purchases of strategic materials abroad and $100 million in other Government programs.
3. Intensified "tying" of foreign aid to U.S. exports to save an additional $500 million in fiscal year 1965.
4. Proposed IET to add 1 percent to the cost of foreign borrowing in United States and stimulate other major countries to liberalize and improve their capital markets.
5. Firmed up structure of short-term interest rates to reduce outflow of U.S. short-term capital seeking higher interest rates abroad.
6. Initiated new export drive with White House Conference on Export Expansion.
7. Announcement of "see America now" program to encourage Americans to spend travel dollars in United States rather than abroad.
8. Initiated program to sell more U.S. securities abroad.
9. Arranged $500 million standby drawing from the IMF to enable other countries to repay their drawing from the fund in dollars rather than drawing gold from the United States or selling their dollars for other currencies.

EARLIER MEASURES TAKEN IN 1961–63

10. Reduced military expenditures abroad and arranged military offset purchases by European countries, thus reducing net military expenditures by almost $800 million between 1960 and 1963.
11. Raised the "tied" portion of aid from one-third in 1960 to 80 percent on commitments made in fiscal year 1963.
12. Developed a "cold budget" to control Federal purchases and expenditures abroad.
13. Largely eliminated foreign "tax havens" for foreign businesses and individuals through the Revenue Act of 1962.
14. Reduced the tourist duty-free allowance from $500 to $100.
15. Inaugurated a new auction program for cotton sales to raise exports.
16. Provided U.S. exporters credit insurance facilities second to none and helped them promote exports through trade missions, trade fairs, and improved consular services.
17. Developed informal arrangements with other countries to discourage private speculation in the London gold market.
18. Undertook U.S. official operation in foreign exchange markets to support the position of the dollar and to offset the effects of potential currency speculation.
19. Arranged for prepayments on foreign government debts to the United States and for advance payments on military purchases.
20. Sold special Treasury securities to foreign central banks to provide additional investment medium and reduce demands on U.S. gold stock.

Mr. Chairman, I would also like to insert in the RECORD at this point a series of tables bringing up to date, to the extent fourth-quarter 1963 data are available, the tables in the committee report:

TABLE 1.—*U.S. balance of payments annually for the period 1949–63, and quarterly for 1962 and 1963*

[In millions of dollars; quarterly figures seasonally adjusted annual rates]

1949	175
1950	−3,580
1951	−305
1952	−1,046
1953	−2,152
1954	−1,550
1955	−1,145
1956	−935
1957	520
1958	−3,529
1959	−3,743
1960	−3,881
1961	−2,370
1962	−2,186
1963 [1]	−2,562
1962:	
I	−2,340
II	−1,808
III	−1,424
IV	−3,172
1963: [1]	
I	−3,460
II	−4,956
III	−1,024
IV	−808

[1] Excludes receipts from sales of nonmarketable, medium-term convertible Government securities.

Source: U.S. Department of Commerce.

TABLE 3.—*New issues of foreign securities purchased by U.S. residents, 1961–63* [1]

[In millions of dollars]

	Total 1961	1962					1963				
		I	II	III	IV	Total	I	II	III	IV [2]	Total [2]
Canada	237	10	112	41	204	457	368	264	79	26	737
Western Europe	57	35	138	15	7	195	65	154	14	34	267
Japan	61	11	17	48	25	101	42	66	52	5	165
Latin American Republics	18	(3)	19	(3)	[4] 83	[4] 102	12	------	23	------	35
Other developed countries	43	(5)	(5)	(5)	(5)	60	------	17	------	------	17
Other less developed countries	95	(5)	(5)	(5)	(5)	77	10	17	11	22	69
International institutions and unallocated	12	80	1	3	------	84	------	------	------	------	------
Total new issues	523	170	312	133	461	1,076	506	518	179	[6] 86	[6] 1,289

[1] Not seasonally adjusted.
[2] Preliminary; revised unpublished data.
[3] Less than $500,000
[4] Includes $75,000,000 issue by Inter-American Development Bank
[5] Not available.
[6] Totals may not add because of rounding.

Source: Survey of Current Business and Department of Commerce.

[From data on p. 5 of committee report]

Net purchases of outstanding foreign securities

[In millions of dollars]

1959	−140
1960	−177
1961	−353
1962	−55

Net purchases of outstanding foreign securities—Continued

[In millions of dollars]

1963	+24
1963 (1st quarter)	−48
1963 (2d quarter)	−64
1963 (3d quarter)	+51
1963 (4th quarter)	+85

TABLE 5.—*U.S. balance of payments—Selected capital movements and deficit on regular transactions, 1962–63*

[Seasonally adjusted annual rates; in millions of dollars]

	Full year		1963			
	1962	1963	1st half	2d quarter	3d quarter	4th quarter[1]
Selected capital movements:						
U.S. transactions in foreign securities:						
New issues	−1,076	−1,283	−1,922	−1,944	−852	−436
U.S. purchases (−) or sales (+) of outstanding securities	−55	24	−224	−256	204	340
Redemptions	170	157	166	208	96	200
Total, foreign securities	−961	−1,102	−1,980	−1,992	−552	104
Bank credits to foreigners:						
Long term	−117	−517	−308	−688	−600	−852
Short term	−277	−694	−772	−1,960	8	−1,240
Total, bank credit	−394	−1,211	−1,080	−2,648	−592	−2,092
Foreign purchases (+) or sales (−) of U.S. securities	134	248	294	532	204	200
Total, securities and bank credit	−1,221	−2,065	−2,766	−4,108	−940	−1,788
Balance-of-payments deficit on regular transactions	−3,573	−3,020	−4,462	−5,032	−1,648	−1,508

[1] Preliminary.

Source: Commerce Department press release of Feb. 13, 1964.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 15 minutes to the gentleman from Missouri [Mr. CURTIS].

(Mr. CURTIS asked and was given permission to revise and extend his remarks.)

Mr. CURTIS. Mr. Chairman, I hope that the way in which our votes will be interpreted on this bill will have some relation to the merits of the debate that is transpiring here on the floor of the House and will have some reference to the majority opinion as contained in the committee's report and the minority views. Also, that it will have some reference to the hearings which the Committee on Ways and Means held on this subject.

Mr. Chairman, I will call attention to the members of the committee that no person outside of the administration testified in behalf of this measure. Quite the contrary, the testimony was strongly opposed to this measure. It was not, as I regret the chairman seemed to imply, on the basis of any selfish interest. There may be some groups involved in this from a selfish standpoint who testified. However, there was a great deal of testimony and the bulk of the testimony did not relate to the personal fortunes or interest of the witnesses.

This is a basic departure on the part of the United States that has been taken by executive fiat without congressional approval. But if the Congress approves it then the Congress will be putting its stamp of approval on a basic departure from the traditional position of the United States in maintaining a free capital market in the world.

I say this goes to the very heart of our society. In my judgment this is the worst bill I have seen in 14 years to come before the Congress. Yet it must be here because there must be a determination of this issue.

The administration has been playing with this issue without trying to get a congressional determination to make it even more effective, than if it actually were enacted into law. Uncertainty is worse than certainty.

Let us not kid ourselves. This bill is delayed, as it has been from last fall, when it could have been brought on the floor of the House; again delayed this year when it could have been brought on the floor of the House. If it is as crucial as the chairman of the Committee on Ways and Means has represented, and indeed it is crucial, why the delay? Is it to utilize the threat of legislation to regulate rather than to legislate? We know the situation in the other body. This bill is not going to move over there with any rapidity. This is one of the factors to bear in mind.

If one reads the record of the hearings and the testimony of Secretary Dillon—I want to be sure that these statements are correct—Secretary Dillon admitted this proposal was in the nature of buying time, that this was not a permanent solution by any manner or means and, as a matter of fact, we recognize that in the long run this would be deleterious to our own economy as well as to our balance of payments.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from Arkansas.

Mr. MILLS. I would certainly agree with the gentleman that if this were merely a proposition to buy time and postpone normal capital outflows there would be questions as to its long-term effectiveness. But I think the gentleman will agree with me that what we are trying to get at here is the recent abnormal use, not the normal use, of the capital market. In addition we are taking measures to improve other aspects of our balance-of-payments accounts. The recent tax reduction bill was one. Raising short-term interest rates was another and reducing military oversea spending is a third.

Mr. CURTIS. The gentleman points it up, but he begs the question when he says "abnormal." The question is, Is it supposed to be temporary.

Mr. MILLS. Compared with the record of the past, and what took place in early 1963, it is abnormally high. Purchases of new foreign securities in the second quarter of 1963 were almost double the 1962 rate and three times the 1961 rate.

Mr. CURTIS. I will get to that. The gentleman does pinpoint an issue here whether or not there is a normal or abnormal situation in these figures. The gentleman will agree there is an area involved we do not know too much about. The Secretary of the Treasury said very frankly "We are dealing with statistics that are quite limited in their accuracy." There are always considerable fluctuations. I would quarrel with the chairman's use of the word "abnormal," in describing what has occurred. If there was fluctuation, and indeed there was, a study of the record will reveal similar fluctuations occur over a period of years. We do not know why.

The point I make today is this is not recommended to the House by the administration as good, permanent legislation. Indeed, the bill itself is limited to December 1965. By its terms it is supposed to be temporary.

Mr. Chairman, a considerable colloquy occurred between myself and the Secretary of the Treasury when he testified to this point.

Mr. ALGER. Mr. Chairman, I make point of order that a quorum is not present.

The CHAIRMAN. The Chair will count. [After counting.] Ninety-three Members are present, not a quorum. The Clerk will call the roll.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 58]

Addabbo	Hoffman	Nix
Avery	Holland	Norblad
Bass	Ichord	O'Brien, Ill.
Blatnik	Jarman	O'Hara, Mich.
Bromwell	Jensen	Passman
Brooks	Jones, Ala.	Pepper
Brown, Calif.	Kee	Pool
Brown, Ohio	Kelly	Powell
Bruce	Keogh	Rains
Cameron	Kilburn	Rhodes, Pa.
Carey	King, Calif.	Roberts, Ala.
Celler	Kirwan	Roberts, Tex.
Chenoweth	Lankford	Rogers, Colo.
Colmer	Latta	Rooney, N.Y.
Dawson	Lesinski	Rosenthal
Delaney	Long, Md.	Ryan, Mich.
Derwinski	McCulloch	St. Onge
Diggs	MacGregor	Schwengel
Edmondson	Mailliard	Sheppard
Elliott	Mathias	Shriver
Ellsworth	May	Smith, Calif.
Farbstein	Meader	Staebler
Feighan	Miller, Calif.	Taft
Ford	Miller, N.Y.	Teague, Tex.
Fraser	Morrison	Thompson, La.
Gilbert	Morton	Tollefson
Halpern	Multer	White
Harsha	Murphy, N.Y.	Wilson, Bob
Healey	Nedzi	Wright

Accordingly, the Committee rose; and the Speaker pro tempore (Mr. ALBERT) having assumed the chair, Mr. GARY, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill H.R. 8000, and finding itself without a quorum, he had directed the roll to be called, when 342 Members responded to their names, a quorum, and he submitted herewith the names of the absentees to be spread upon the Journal.

The Committee resumed its sitting.

The CHAIRMAN. The Chair recognizes the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. Mr. Chairman, at the time of the quorum call I was establishing the point that the administration has presented this bill in the nature of buying time in order to cope with the basic causes that underlie our balance-of-payments difficulties. The bill before us on its face is of a temporary nature. Therefore, one of the issues before the House is to consider this question of just how temporary are temporary taxes? And I submit that our experience is that that which is temporary tends to become permanent. I simply call attention to the Korean taxes.

Therefore, it behooves the House to carefully consider the question on the basis that once it becomes law it is a permanent part of the law. This bill is a radical departure from the basic policy of the United States which has been maintained over 150 years to establish and preserve a free capital market. So that this question must be thought of from that standpoint.

Now, Mr. Chairman, let us determine whether or not we really are buying time or marking time as I suggest, because you are only buying time if you really are moving forward to cope with the basic problems which exist in our balance of payments.

Mr. Chairman, I wish that the Joint Economic Committee's report on the balance-of-payments problem were available at this time. It is in the process of being printed. I believe the members of the Committee then would understand quite clearly that this is not buying time. This is marking time. As a matter of fact when it is determined that we are not moving forward; that is, as it becomes clear that we have not moved forward to correct our basic trouble in our balance of payments, we are going to try to rely more heavily on this tax. Believe me, we can make this tax effective as far as it relates to covering our investments here in the United States. But why does the administration itself say that this tax as a permanent measure is deleterious to the economic health of our country?

Mr. Chairman, it is very clear that one of the great assets which the United States possesses—and, Mr. Chairman, I must apologize to the House for my not being able to talk in a more forceful manner on an issue upon which I predicated my remarks by saying it is the most serious that has faced us in the 14 years that I have been in the Congress, and I just wish I were more eloquent and could get these issues out more clearly—I might suggest that perhaps the membership bear with me in my inadequate abilities to express myself. These issues are important and they run very deep.

Mr. Chairman, if we are not moving forward in correcting these basic problems involved in our balance of payments we are putting the United States in a worse position. This is very comparable to the profligate son who inherited a great deal of wealth and in order to make do, because he continued spending more money than he took in, he sold off some of his capital assets. Yes, he can get by for awhile but his position becomes progressively worse. This is really what we are doing here.

Mr. Chairman, one of the great assets which we possess in our balance-of-payments situation—in fact, we have two basic assets—one of them is our balance of trade. We have an excellent balance-of-trade situation. We also have an excellent portfolio of investment abroad from which we are receiving great returns. These represent pluses in the balance-of-payments picture.

Mr. Chairman, when I engaged in the colloquy with the chairman of the Committee on Ways and Means, the gentleman from Arkansas [Mr. MILLS] during his time, I said one of the things that is necessary in order to get our balance-of-payments situation in order was to balance our own Federal budget. Indeed, that is so. However, the portion of the budget which has to do with our balance of foreign payments is critical. The balance of the entire budget is a little longer and a little more indirect in bearing on our economy but the balance-of-payments section of our budget is immediate on our gold flow problem. Our problem is not in the return which we are receiving on our foreign investment portfolio, which is a great plus item. It is not in our balance of trade. It is not in the private sector. These facets of our economy are strong. The trouble is in the governmental sector. We have been putting forth too much money for even this wealthy country to afford in the area of foreign aid. I happen to be in favor of the theory of foreign aid. However, this administration in the budget which it presented and its attitude is clearly not going forward to hit at the basic problems in our balance-of-payments situation.

Take the issue over the foreign aid bill last year where this Congress in its wisdom cut back the program to a $3 billion rate. What did this administration do but go on with expenditures to continue spending at a $3.6 billion rate. There is none of this movement today to use this time we are buying to improve our position on a permanent basis in order to correct basic problems.

Why are our investments going abroad? Because the climate for investment abroad regrettably is greater and better than the climate at home. That bears on some figures we Republicans put in our Joint Economic Committee report a year ago namely, the returns per investment dollar have declined—we use 1947–51 as a base—from a 14-percent return, whereas now it is below 9 percent. Abroad the investment returns are higher. What bears on this climate of investment? There is where we get back to a basic need for a balanced budget in our own fiscal affairs. If we come along with a stopgap measure which will hurt the private sector, the strong sector in the balance-of-payments picture, in order to buy this time, and we do not use the time, and the administration is not using the time to correct the basic problem, it is merely pushing us further down the drain. That is the issue the House has to determine.

The testimony of most of the witnesses was directed to this, not their particular selfish interests, because many of them had none. No one testified for this bill except the administration, I remind you. If you will read the hearings you will see that the issue I am trying to bring out here was paramount.

There is a second point that must be mentioned. Notice the unorthodox and unconstitutional manner in which the administration has moved in this area because this tax has already been put into effect from a practical standpoint. Forms were printed and issued by the Treasury Department and they are filling them out on the assumption this tax is law.

The Congress has another problem. Are we going to sanction this kind of operation on the part of the executive branch of Government? This is a matter of balance of power within our society between the legislative and executive branches of the Federal Government. If the Democratic Party is going to adhere to the philosophy the executive should have this power, that becomes a major issue. I hope if it is of that nature and becomes an issue it will be a matter for the people to take into consideration at election time.

The CHAIRMAN. The time of the gentleman from Missouri has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield the gentleman 5 additional minutes.

Mr. CURTIS. Mr. Chairman, this can be a perfectly high-level debate though it became partisan. It is a serious matter. This unilateral Executive action has been done, and the chairman of the committee has so admitted. Indeed, it is pointed out that the threat of this tax has actually produced results, and indeed it has since the tax has been in effect, greater than the tax itself if it became law. In my judgment, and the hearings will bear this out, this is unconstitutional, it is unprecedented, and I think the House should reject it so that the administration will not further attempt this kind of procedure.

One other very basic point: This is one more step on the part of the administration toward economic isolation. I want to refer to the minority views, and I will ask unanimous consent to insert them in the RECORD with my views when we return to the House, I refer to the committee report on the International Coffee Agreement of 1963 which we considered on October 28 on the floor of the House.

In these views I say:

ADDITIONAL VIEWS OF THOMAS B. CURTIS ON H.R. 8864

During the public hearings on the Trade Expansion Act of 1962, I raised the question of whether the administration policy was truly one of freeing up international trade or whether indeed it was not moving toward more restrictions by substituting licensing and quota arrangements for tariffs.

The present coffee treaty is just one more action in a series of actions taken by the Kennedy administration which lend support to this position. It is true that coffee like sugar and other raw commodities has been the subject of Government-sponsored cartels instead of the more liberal trade regulator, the tariff, for some time. However, there are no indications of a disposition on the part of the Kennedy administration to break loose from this most regressive of all techniques to regulate trade to move toward a freer marketplace. Where there were tariffs and no cartels, we now find cartels. Where there were cartels, we find more regressive cartels negotiated. Where there were no regulators, we find the administration advocating tariffs as in the proposal to impose an excise tax on American investments in foreign securities.

President Kennedy in his special letter to the committee to reassure it in its concern for the American consumer talks one way and yet acts another. The coffee agreement is admittedly to keep up coffee prices; how then can the President argue that it is to assure the American housewife the lowest price for coffee? Nothing is said in the Presidential letter about passing on to the consumer in lower prices any benefits that may be derived from future increased efficiencies and increased productivity in the growing and distribution of coffee.

Finally, I would observe that in the long run we do a disservice to the coffee-producing countries by these shortsighted cartel setups. This tends to keep them tied to a one-product economy instead of to encourage them in the development of a diversified economy from which comes sustainable economic strength and increased standard of living.

THOMAS B. CURTIS.

The Secretary of the Treasury recognizes this is in the nature of a tariff. This is not a bill to raise revenue, this is a bill to regulate.

Finally, I want to point out what we have gotten ourselves into when we try to regulate in this matter through this technique of controlling our foreign private investments. We have to proliferate the entire field of investment, between equities and debt and in debt itself between bank borrowings and bonds. Then we have another separation based on geography because the tax is not to apply to so-called underdeveloped countries or to Canada. Then there is a proliferation between new and old securities and, I might say, no reference at all to the biggest area of investment that bears on the balance of payments, which is reinvestment. I am glad that is untouched by this tax because that is at least one break for the private enterprise system. But look at how reinvestment of our funds abroad is affected by the controlling and the regulating of these particular other areas of investment, of stocks, bonds, bank loans, and so forth. That is the real reason you have a bill before you that is 103 pages long, because it is trying to make these lines of demarcation between these various kinds of investment, which honestly one cannot really make.

Let me read something that bears on this, a letter I just got this morning from a New York broker. I asked him to comment on the bill.

MODEL, ROLAND & CO.,
New York, N.Y., March 2, 1964.

Hon. Representative THOMAS B. CURTIS,
House of Representatives,
Washington, D.C.

DEAR MR. CURTIS: You were kind enough, with your letter of December 27, to send me the report of the committee hearings on H.R. 8000, the Interest Equalization Tax bill and to ask for any additional comments.

I have delayed my answer so as to be able to present you with the most recent evidence available as of the time when the Rules Committee would release the bill for debate on the floor of the House which, as I now understand, will take place next week. Even though it appears that no amendments may be offered to the bill and that debate will be limited to 3 hours, I thought the following comments might perhaps still be pertinent:

From the beginning of this proposal, we have argued—and the minority views in the committee report bring this out very well—that the effect of the bill will simply be to funnel the outflow from securities issues which are liquid and negotiable assets for the United States into an equivalent outflow from bank loans which are not liquid. Thus, the part of our foreign assets which could serve as a secondary reserves in a pinch is depleted. The latest Department of Commerce figures bear out this view beyond any shadow of the doubt. According to these figures, long-term bank loans, i.e., those maturing in over 1 year, to foreigners, which had represented a net outflow of $136 million in 1961 and of only $117 million in 1962, rose by a spectacular 340 percent or $400 million, to $517 million last year. Taken by calendar quarters, the effect of the proposed tax stands out even more clearly. The first quarter 1963 showed a net inflow (repayments) of $27 million (followed by outflows of $178 million in the second quarter, $114 million in the third quarter and $252 million in the fourth quarter.

The increase in December alone seems to have been the largest on record. Nor is that the entire story, because these Department of Commerce figures only cover loans by U.S. banks in the United States. They do not include loans made by independent foreign offices which many of the larger banks now have, only loans made by foreign branches. However, the U.S. Treasury has these figures as well, and there is some reason to suspect that the total outflow, including this latter category, may be substantially higher yet than the above $517 mill total. If this is so, one can hardly speak of any significant benefit to our balance of payments as a result of the proposed tax; even if last year's rate of outflow through new issue activity, which was unusually high in the first 6 months at approximately $1 billion, had continued during the last half, there is good reason to think that at least a part of this amount would have been bought up by foreigners subsequent to original issue, and that a further significant proportion would have paid for U.S. exports. As against this, the U.S. investment bankers underwriting these issues would have retained this volume of underwriting in the United States.

This brings me to my second point, namely the shift of this important business to foreign markets. Because, as the Treasury itself has stated in its recent report on European capital markets to the Joint Economic Committee, these foreign markets are less potent and efficient, as well as much more costly than our own, only a part of this activity has been shifted out of the country. Even so, recent estimates show some $125 million of new issues originally destined for the New York market to have been lost to European investment banking groups. At the same time, the cost to the borrower has been raised thus extending the spread between the foreign and domestic long-term interest rate structure. Quite apart from the loss of business to American investment bankers, this tends to increase the temptation for individual investors to shift funds out of the United States, sometimes even by subscribing to such issues, at least so long as there still is no certainty over the fate of the interest equalization tax proposal. The fact that the foreign syndicates launching some of these issues have frequently included the European offices of American banks and bankers have certainly not done anything to mitigate this danger. But even so, there is no doubt that the loss of American market leadership resulting from these proposals is beginning to show serious consequences. If the United States can no longer act as an exporter of capital because our gold reserves are used to finance foreign aid, then London and Paris must do the job as best they can. And since their reserves are not unlimited, either, they must ultimately protect them by restricting imports from the dollar area. In less than 2 months, the Geneva GATT negotiations will show the likely extent of such losses of U.S. exports. In the long run, we shall all be poorer in terms of either foreign or domestic resources.

You see what is happening, and one reason why our New York bankers, though they opposed this, are sort of sitting on their hands, because as far as they are concerned it means more business if you cut in on the area formerly serviced by new bond issues. This is the reason why ever member of the Committee on Ways and Means, I guess they were—I was—have been visited by all kinds of groups coming into my office saying, "Let us out." I have said:

> This is a bad bill. You know it is a bad bill. You all say it is a bad billl. What is going to happen if you get your nose in this bill of 103 pages of exemptions and are left out of the tax. We won't find you around trying to help defeat it.

But there were a lot of people that got their nose in this bill and a lot of people that did not get it.

I do not like the atmosphere, the manner in which this was done. That is one reason I wanted a semiclosed rule so that this committee and the House could have evaluated some of these exceptions and exemptions that our own committee has put into this bill.

The chairman of the committee related the fact that our gold flow had experienced a letup. We actually still are being drained. The only thing he referred to was that the amount of gold flow was not as great. But I would suggest to the gentleman that the real reason for that was the substitution of $600 million of Government bonds sold to the foreigners, payable not in U.S. dollars but in terms of the currency of the country abroad. We are devaluing the dollar through these and other devices because we refuse to go to the heart of the matter of our balance of payments.

This is the reason I have said in my judgment this is the worst bill I have seen in 14 years. It changes our basic approach to foreign investment, one of the very things that has made this country great. We are cashing in our future in order to theoretically buy time, but the record reveals we are not using this time to correct the basic difficulties. So if we pass this, we are going to be worse in the hole and we will have started our country down on a path that we cannot retrace.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. MILLS. I know the gentleman has deep concern about this problem. I have talked to him many times with respect to the balance of payments and flow of gold which, of course, is related to the imbalance in our payments, as the gentleman knows. The gentleman does not find this bill an acceptable way of dealing with that problem in spite of the very great improvement which occurred after its announcement in the last 6 months of last year. Will the gentleman tell me again what he would do to solve the problem?

Mr. CURTIS. Yes; I will tell the gentleman I have no doubt that this will provide a temporary easing and it will buy time, but if we do not use the time—and my argument is that we are not using the time to correct our basic problems—and that is what I am saying—and if the gentleman will follow my syllogism I think he will agree with the syllogism even though he may disagree with the specific point, the syllogism being this: That if this does not actually buy time, but merely marks time, we are in a net position, worse off than we were when we started buying this time and that is the key to the issue.

Mr. MILLS. I would agree that this bill is not the whole solution to the balance-of-payments problem. In the long run when the other segments of the accounts are improved and when the foreign capital markets are made more efficient, then we will not need this tax. But I disagree strongly with the gentleman that we are not making some improvement in other areas. I outlined many of these in my opening statement. I think the gentleman recognizes that, but I would like to state my point——

Mr. CURTIS. If I may, permit me to stop the gentleman right there—we have a point of agreement. That is the point. My argument is we are not moving forward to correct the basic problems having to do with the balance of payments.

Mr. MILLS. But we have been moving forward in that area on several fronts.

Mr. CURTIS. No, I disagree on that.

Mr. MILLS. But we have.

Mr. CURTIS. All the gentleman is saying is that we have not moved forward in the area of private investments that we should have been because of a threat of this tax. Because we have not done this, we have ebbed the gold flow temporarily. But what I am saying is that because we have failed to move forward in making these investments, we have put the United States of America in a poorer position economically in the long run.

Mr. MILLS. Will the gentleman now yield so that I may ask the question that I meant to ask?

Mr. CURTIS. Certainly, I yield to my chairman.

Mr. MILLS. I know the gentleman is not for the bill and I know he recognizes this problem, but will the gentleman tell me once again what the gentleman would do about the problem other than bringing about a balance in our own budget which we all are for?

Mr. CURTIS. Foreign aid—I recommend that foreign aid be cut $2 billion and there is where you could be doing something and certainly not do what the Johnson administration did when we, in our judgment, in going over the figures cut it to $3 billion and then it was raised to $3.6 billion and that is what is in the budget now.

The CHAIRMAN. The time of the gentleman has expired.

Mr. BURKE. Mr. Chairman, some Members have raised the question:

> What is the reason for providing the President with authority to exclude from tax new issues "where required for international monetary stability"? (Sec. 4917).

There is compelling reason why a provision of this sort is included in H.R. 8000.

Needless to say, no one can predict with absolute certainty what developments may arise over the next 22 months—the 22 months still before us during which the present bill would keep the tax in effect. Balance-of-payments positions of other countries can shift very substantially—and sometimes abruptly. If these developments are so serious that the value of a major currency is threatened, we must be able, particularly in cooperation with other countries, to take reasonably prompt action. One possible action—depending upon the particular circumstances of the case—that could prove appropriate in those circumstances would be an exclusion from the interest equalization tax for new issues so as to facilitate necessary borrowing in our market by that country.

Such action, when appropriate, would be consistent with one of the obligations we have as a member of the International Monetary Fund—the obligation "to collaborate with the Fund to promote exchange stability." Because the dollar plays a key role in the international payments system and because it is the main reserve currency of the world, we recognize a special responsibility in meeting this obligation to the Fund.

The standard to be applied in deciding whether to apply this exemption is stringent. Application of the exemption would be possible only if the President of the United States determines that developments in a particular country's position "imperils, or threatens to imperil, the stability of the international monetary system." This is both a tough and an appropriate standard. In substance, it means that developments are so serious that the payments system itself is threatened. In such a case, an adverse effect on our own trading and financial position would inevitably show up sooner or later.

The test in the bill is stern and demanding —but it does not, as it should not, discriminate among developed countries abroad. Discrimination would be evident of course if some particular industrially-developed country were simply made exempt by name. Once the overwhelming need is evident in the case of a particular country, consideration of an application of the exemption is possible.

Let me make clear my understanding that there is no expectation that this stern test for granting an exemption will be met, except in the case of Canada. Developments thus far do not suggest the likelihood and we have been assured that no other cases are now foreseen. The provision thus provides the basis for exempting new Canadian issues and remains available for possibe action to meet unforeseeable emergencies that could conceivably arise.

Mr. Chairman, it has been asked:

> Why is Canada the unusual case? Why is an exemption for that country contemplated?

The Canadian case is a special one—special because the integration of our two capital markets is unique. In addition, Canada over the years has experienced a persistent and large trade deficit which has been largely covered by borrowing in the United States. It was this combination of circumstances that prompted Canadian financial officials last July to undertake prompt negotiations with our own financial officials to discuss the outlook for the stability of the Canadian dollar in the foreign exchange markets—an outlook that met the definition of H.R. 8000 of a condition that "imperils, or threatens to imperil, the international monetary system."

In the Canadian case, the exemption for new issues forecloses an alternative possibility—that of such intense pressure on the Canadian dollar that its value in the foreign exchange markets is threatened. In May 1962—after a decade of letting the value of the Canadian dollar float—the Canadian Government established a fixed par value for its currency. Serious threats to the stability of that parity would unsettle the payments system. It is, therefore, in the interest of the payments system for that par value to be preserved—and this is of particular interest to us because we are Canada's chief trading partner. As such we want to preserve the position of our industries and our exporters in our relations with Canada.

I would like to emphasize three key points:

First. In keeping with the provision in the bill, the exemption relates only to new securities of Canadian issuers and obligors.

Second. The exemption will not undermine the purpose of this tax. The Canadian Government has stated that it is not its intention that Canadian borrowing in our market will be undertaken if Canadian reserves would increase as a result. This will necessitate a sharp reduction in the exceptionally heavy outflow to Canada that characterized the fourth quarter of 1962 and the first half of 1963. By its own credit and interest-rate policies, Canada will assure this result.

Third. Developments in the flow of funds will be carefully and continuously observed. If an excessive amount of borrowing develops, the exemption can be revoked or limited.

Thus, the proposed application of the exemption from the tax to new Canadian issues—which the Secretary of the Treasury has assured us is the only exemption he will recommend to the President under present circumstances—is consistent with the stern test for exemption set forth in the bill. But the application of the exemption will not sacrifice the balance-of-payments objectives of the bill we are considering or limit the effectiveness of the bill.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the gentleman from Oregon [Mr. ULLMAN].

Mr. ULLMAN. Mr. Chairman, the chairman of our committee, the gentleman from Arkansas [Mr. MILLS] has given you an explanation of the gold flow problem and has told you how critical it is. I want to emphasize that conclusion and to say that the more you look at this problem, the more you realize how difficult it is and how critical it is. When you look at the world situation as to the industrialized nations of the world and their future expansion policies, you realize that the dollar outflow through foreign dollar investments could expand at any time to such dangerous levels that the American dollar would be seriously endangered.

There are many ways to approach the balance-of-payment problem. This bill faces what, in my opinion, is one of the crucial areas that of oversea dollar investments and it does so without imposing rigid controls. It does so in what, in my opinion, is a sound American way that will allow the marketplace to continue to govern the transactions of the world, and this is certainly what we want to do.

A dangerous alternative, in my opinion, lies in the field of raising American long-term interest rates to the levels of many of the other industrialized countries of the world.

This is a false and unsound alternative, because it might well jeopardize the whole program of growth in our American economy; at a time when we are trying to fight unemployment, at a time we are trying to fight poverty in this country, at a time we are trying to build a greater growth factor. The worst thing in the world we could do to our domestic economy would be to follow that alternative.

I should like to direct my remarks more specifically to a suggestion which has been made that transactions in stocks as opposed to those in bonds could be excluded from the coverage of the equalization tax without seriously compromising its chances for success. It is vitally important, in my opinion, that stocks be covered; first, to assure sizable savings in our balance of payments on stock transactions themselves and, second, to prevent the wholesale substitution of stock for bond transactions which would surely result were stocks to be exempted from the tax.

To those who claim that this legislation reaches out in an illogical and unnecessary fashion to include stocks, I would say: Quite the contrary, the coverage of stocks follows logically and inevitably from the decision to duplicate, by way of this special tax, the effects which would have resulted, in regard to foreign stocks and bonds, from a general increase in our domestic long-term interest rates.

Why do we not depend on such a rise in interest rates instead of this tax? I covered that quite briefly previously; it is because there are some clear and compelling domestic arguments against higher long-term interest rates at this time. Unemployment continues to be excessive, with 5.5 percent of our labor force idle. Operating rates in many industries are still well below the most economic level. Higher long-term interest rates would fall with special force upon job-creating business investments and construction activities. Higher long-term interest rates would act as a crippling drag upon an economy whose performance we are seeking at this time to stimulate, not to retard.

Unless our economy is progressive we cannot wage an effective war against poverty, and higher long-term interest rates will not contribute to a progressive economy.

Moreover, it would require a drastic and artificial use of monetary policy to force up our long-term interest rates. The flow of savings into long-term investment markets continues to be quite large. With such an ample supply of funds seeking investment outlets, only a sharp and potentially disruptive contraction of the money supply could possibly succeed in raising long-term interest rates.

The simple fact of the matter is that higher long-term interest rates are neither feasible nor desirable at this time. They are definitely uncalled for on domestic grounds. Instead, the interest equalization tax will provide the necessary increase in the cost to foreign borrowers of raising capital in our markets without in the process imposing a burden upon the domestic economy.

That is the crucial issue in the bill before us today, because we are going to have to face up to the gold outflow problem. This is the sound road, which will preserve the growth factors in our economy and allow us to face up to these critical problems of unemployment and poverty here at home.

Mr. McCLORY. Mr. Chairman, will the gentleman yield for a question?

Mr. ULLMAN. I am happy to yield to the gentleman from Illinois.

Mr. McCLORY. My concern is as to the position of our Nation as the financial center of the world; not only New York City, but also Chicago and San Francisco. Will this not adversely affect our Nation's position? Will it not discourage using our financial markets for investment purposes?

Mr. ULLMAN. In my opinion, it will bolster rather than discourage the importance of America in the world capital markets.

Mr. McCLORY. Did not the private experts who testified before your committee take a different position than that?

Mr. ULLMAN. Those who testified before our committee—and I know the subject has been raised before—those who opposed this tax had a financial and an economic stake in the outcome of this proposal because they were engaged in the foreign investment business. We respect their opinion; we call for it when we have hearings, but we must weigh the opinion and the evidence on the basis of the economic interests of those who are giving the evidence. Those who were unbiased and ready to faceup to the problem of the outflow of gold from the point of view of the public interest and not their special interest favored the tax.

Mr. McCLORY. Will the gentleman yield for one more question?

Mr. ULLMAN. Yes, I yield.

Mr. McCLORY. It seems to me from examining part of the testimony at least—and I happen to know some of the individuals who testified—that enactment of this bill will cause other nations of the world to lose confidence in the dollar, which is the most important thing in our gold position.

Mr. ULLMAN. My opinion is absolutely the contrary to that.

Mr. MILLS. Mr. Chairman, will the gentleman yield to me?

Mr. ULLMAN. I yield to my distinguished chairman.

Mr. MILLS. I am sure the gentleman from Oregon was about to say that just the reverse is the case. If we continue on without addressing ourselves at every opportunity to some solution of this imbalance in dollar payments, that is what is going to give rise to lack of confidence in the American dollar. It is not something we do in the interests of protecting the value of that dollar that is going to give rise to any lack of confidence in it.

Mr. ULLMAN. The gentleman is absolutely correct. In my opinion, if we do nothing, and the gold outflow increases that will jeopardize the American dollar more than anything else.

Mr. McCLORY. My feeling is that if we acknowledge a need for this legislation and this regulation as was brought out by the gentleman from Missouri, this in itself causes these other nations to lose the confidence which is the vital part of retaining our gold position.

Mr. ULLMAN. In my opinion, if we do not face up to this critical problem of the outflow of gold, then we will have more trouble holding confidence around the world and the dollar will be in trouble. The only way we can preserve and protect the dollar is to face up to the issue, which is what we are trying to do in this legislation before us here. I would rather not yield any further until I can examine a little bit further this question of the elimination of stocks from the bill.

The CHAIRMAN. The time of the gentleman from Oregon has expired.

Mr. MILLS. Mr. Chairman, I yield the gentleman an additional 5 minutes.

Mr. ULLMAN. I thank the chairman.

The interest equalization tax must apply both to stocks and bonds in order to be effective. If it were to be applied only to stocks, serious distortions would arise. Strong incentives to shift from bond to stock transactions would operate on both sides of the market—in the case of foreign borrowers and in the case of American investors. For many foreign borrowers, the issuance of stocks or bonds for sale in this country would be close alternatives. Instead of reducing their current borrowing in this country, they could simply choose to raise capital here through untaxed stock issues.

On the other side of the market, the reaction of American investors to the taxation of foreign bonds, but not stocks, is equally predictable. The portfolios of many American institutional investors are extensively diversified and responsive to differential earning prospects. They would not fail to be alert to the opportunity—if it were available—to expand their purchasing of tax-free foreign stocks and to that extent lessen their purchases of taxable foreign bonds.

Thus, with foreign bonds taxed, and foreign stocks untaxed, strong market forces would develop both here and abroad to encourage the increased sale by foreigners, and purchase by Americans, of foreign stocks in preference to foreign bonds. This would cut sharply into the savings expected from this measure.

If the interest equalization tax leaves out stocks, this will present foreign borrowers with what amounts to an open invitation to convert new or outstanding bonds to stock issues—simply to get around the tax and the increased cost of borrowing it represents. There are a variety of techniques by which foreign stock issues could be used to achieve the financing results now achieved by bonds. Financial ingenuity would discover new ways to blur the sharp line between debt and equity instruments and escape the effects of the tax. We cannot settle for a halfway measure. It simply will not work.

Those who think it is unnecessary to include stocks in this legislation may argue that net purchases of new and outstanding foreign stocks by Americans are not large and that not much will be lost. They are likely to refer to the outflow of some $100 million in 1962 and $50 million in the first half of 1963, rather than the $370 million in 1961. This fails to recognize that in 1962 and early 1963 net sales of Canadian stocks occurred instead of the regular purchases that are normally to be expected. But this appears to have been a temporary phenomenon attributable to a change in the Revenue Act of 1962—ending the practice by which purchase of Canadian mutual fund shares could convert earnings into capital gains for Americans—and the retirement of the stocks of private Quebec utilities, some of which were held by Americans.

The Treasury Department has suggested that in the absence of special influences, a net outflow of as much as $350 million or more into foreign stocks would be a reasonable estimate of prospective volume in future years.

This is simply a forecast of possible developments on the basis of past trends and the rapidly developing familiarity of American investors with foreign securities. It makes no allowance whatsoever for the extensive shifting into stock that would surely result from a decision to tax purchases of foreign bonds, but not foreign stocks. The Treasury has estimated that when all the relevant factors are considered, failure to tax stocks could easily involve the sacrifice of balance-of-payments gains as large as $500 to $600 million a year.

We see then that the amounts involved are by no means insignificant. The exclusion of stocks would be a special and costly concession not justified by any economic logic. It would be an undesirable step.

What we are doing here is making a real dent in our outflow problem. We did it as of last year when this bill was introduced, because the effects of the legislation were felt immediately. You can look at the results from the day the legislation was introduced. It has been extremely helpful to date. We can only continue that effectiveness, however, by taking positive action on this bill today.

In my opinion it would be catastrophic were we to vote down this legislation. It would have a tremendous impact upon our outflow of gold and would be extremely dangerous to the American dollar. I cannot emphasize strongly enough the importance to the future of the American economy of the adoption of this sound program. It will, within the limits of the principles and concepts of the free enterprise system of this country give us what we need in the foreign investment field to stop the outflow of gold. I think it is a sound concept, a good one, and I certainly urge my colleagues in the House to vote for this bill as reported by the Committee on Ways and Means.

Mr. PEPPER. Mr. Chairman, will the gentleman yield?

Mr. ULLMAN. I yield to the gentleman from Florida.

Mr. PEPPER. Mr. Chairman, I should like to address a question, if I may, to the distinguished chairman of the Committee on Ways and Means.

Mr. ULLMAN. I yield to the gentleman for that purpose.

Mr. PEPPER. Mr. Chairman, I thank the gentleman. This measure before us today is in response to the need to meet the problem of the balance-of-payments deficit of our country?

Mr. MILLS. That is correct.

Mr. PEPPER. Is one of the contributing factors to the balance-of-payments deficit of our country the tourist deficit that we have, namely, the amount of money that Americans spend abroad in excess of the amount of money that people from abroad spend in the United States?

Mr. MILLS. That is a factor, yes.

Mr. PEPPER. If we could induce more Americans to travel in the United States and see America and induce more people from abroad to come and see and know America, would that contribute materially to the diminution of our balance-of-payments deficit?

Mr. MILLS. It would; and I would suggest that if they stopped in Miami on their way, it would be a great help.

Mr. PEPPER. In view of the very generous statement of the able chairman, I hope that before they return they will visit and become acquainted with the beauties of the State of Arkansas.

Mr. MILLS. I thank the gentleman.

Mr. ULLMAN. Mr. Chairman, I would like to say to the gentleman from Florida that this House recently passed a resolution that I introduced to designate this year as "See America Year."

Mr. PEPPER. Mr. Chairman, if the able gentleman from Oregon will yield further, I wish warmly to commend the distinguished gentleman from Oregon for what he has contributed toward the reduction of the balance-of-payments deficit by encouraging Americans to see this wonderful country of ours, and one of the most beautiful parts of it is his own State of Oregon.

Mr. ULLMAN. I thank the gentleman.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. ULLMAN. I yield to the chairman.

Mr. MILLS. Mr. Chairman, I want to congratulate the gentleman for the very diligent study, and the effort he has made during the time he has been a member of the Committee on Ways and Means to support measures and to help develop measures that in his opinion would obviate the necessity of increasing the interest rates. I know how strongly he feels on that subject. I commend him for the efforts he has put forth in behalf of those objectives.

Mr. ULLMAN. Mr. Chairman, I thank the gentleman.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from Michigan [Mr. KNOX].

(Mr. KNOX asked and was given permission to revise and extend his remarks.)

Mr. KNOX. Mr. Chairman, I rise today with considerable misgivings over the legislation before the House, H.R. 8000. I must admit I find myself in somewhat of a quandry. This results from the claims advanced by the administration and the committee majority that this bill results in a net improvement in our balance-of-payments position of some $1.25 to $1.5 billion annually based on the rate of the first 6 months of last year. In addition it is estimated that the bill will raise revenues by up to $30 million a year—not a fantastic amount in these days of $100 billion budgets, but significant, nonetheless.

Certainly there can be no disputing the fact that our balance-of-payments position is precarious and badly in need of remedial measures. And certainly the objective of this bill, that is to stem the tide of gold flowing from our shores, is worthy of careful consideration. Yet through examination of the form this effort is taking in H.R. 8000, and thoughtful consideration of the longrun effects this bill would have, soon leads one to the grave misgivings which I mentioned earlier.

Make no mistake about it, we have much to do to correct our imbalance of payments. However, upon reflection it is clear that H.R. 8000 attacks only the symptoms of that illness and leaves the root causes unchanged and unchecked. As a matter of fact, this bill may increase rather than decrease our balance-of-payments deficit over the long run through jeopardizing the dividend and interest return on investments abroad, and reducing the amount of repayment of obligations from abroad that currently help to bolster the plus side of our balance-of-payments accounts. Treasury Secretary Dillon admitted this fact and cited it as the reason to make the tax "temporary" with an expiration date of December 31, 1965. Yet one only has to look to our experience with the so-called "temporary" wartime excise taxes to see how "untemporary" these "temporary" taxes can become. Year after year we have extended these taxes long after the reason for their enactment had passed in spite of clear-cut evidence, especially in the case of automotive excises, of their adverse economic impact. Yet today we are about to set another of these "temporary" taxes in motion. Have we any assurance that come December 1965 we will not be asked to extend them from year to year?

Further misgivings arise because of the internal inconsistencies and implications of H.R. 8000. To begin with, it establishes a confusing pattern of exemptions that can only be reconciled when one realizes that the thrust of H.R. 8000 is not to equalize interest rates nor to tax, but to funnel capital transactions into channels where the Treasury and the President can control them through threats of removing exemptions if the borrowers and lenders do not cooperate with administration policies. Thus the main thrust of the exemptions pattern is to channel capital transactions into the commercial bank category which is exempt from the tax at present. A psychological club could then be used to control the volume and pattern of these transactions.

There is the further problem of the blanket exemption granted by implication to Canada for the purposes of "international monetary stability." Approximately half of the new issues of foreign securities purchases by U.S. residents originated in Canada. It seems somehow inconsistent that we should be providing a special privilege of access to U.S. money markets to Canada at a time when she is placing embargoes on U.S. automotive parts, magazines, and many other trade categories in an attempt to freeze us out of her markets. In the automotive category alone this will jeopardize over $300 million a year of our exports and threaten many jobs in the United States and may well force U.S. auto and auto parts manufacturers to transfer a substantial portion of their operations to Canada or forego this market. Yet we still have no assurance that the exemption to be granted Canada will in any way be contingent on working out any more satisfactory trade agreements with her.

Mr. Chairman, in relation to the legislation which is now pending before the committee, throughout the hearings I interrogated the Secretary of the Treasury and also some of his assistants relative to the agreement which had been reached with Canada whereby the President would immediately issue a waiver of this legislation as it applied to Canada in its acquiring funds through our financial markets. The reason I have raised this question is because when we were discussing this legislation Canada set up an embargo on automotive parts which were being exported into Canada. This meant a reduction in our exports in the amount of $300 million a year.

Mr. Chairman, the justification for the President assuring the Canadian Government that he would not apply the provisions of this bill to Canada is something for which I cannot see any justification whatsoever. This $300 million worth of automotive parts that were going into Canada represented, roughly, according to the Treasury Department, approximately 400 jobs in the United States. So, we are willing to export our dollars and also to export our jobs in order to satisfy the Canadian Government in their determination that there is going to be nothing in this legislation which will hamper them in the expansion of their own industry.

Mr. Chairman, there is not any question in my own mind that if this legislation passes with that waiver, which the President of the United States has granted to Canada, they will come into our money markets, borrow our money, and expand their plant facilities as far as automotive parts are concerned and, in turn, will send those automotive parts, which they are manufacturing, into our channels of export that we have today as far as automotive parts are concerned.

Mr. Chairman, in all fairness to the American people I believe if they are going to be called upon to finance the operation of foreign countries they should not have to export their jobs in order to do it. This is actually what this legislation will do, with the promise of the President of the United States. We will be exporting jobs from this country into Canada, plus the furnishing of financial means with which they can expand their own economy. In my opinion this will bring about disaster to a certain segment of our own working force here in the United States.

Mr. Chairman, it certainly is my hope that when the members of the Committee take everything into consideration that is involved in this legislation, the House will vote it down and not enact legislation which will be contrary to what it is projected to be.

Mr. Chairman, we all realize that the imbalance of payments is a serious question. However, I do not believe this is the manner in which we can get to it.

There can be no doubt that H.R. 8000 will not solve our balance-of-payments problem. Like other steps taken in the last year or so by the administration, it is a "gimmick" designed to buy time. One certainly must admire the imagination and ingenuity shown by the Treasury in the series of transactions outlined in the minority views on page 80. These involved the requests to Western European nations to anticipate payment of their debt obligations and pay in advance for military supplies purchased here and the subsequent special borrowings abroad by the Treasury. All these made the balance sheet look better, but like H.R. 8000 they do not attack the root causes of the problem. They have given us a little more time. H.R. 8000 also gives us a litle more time. But it makes it doubly imperative that we take steps now to get at the underlying problems, especially the volume of governmental expenditures overseas. As I mentioned earlier, H.R. 8000 will have a substantial adverse effect in the long run. This coupled with the potentially adverse impact on our commercial trade balances of the tax reduction bill further reduce the time available to us to correct our balance-of-payments problem. We should recognize also that H.R. 8000, while giving us added time, may well make the task of ultimate solution more difficult through jeopardizing the private investment sector of the accounts.

In conclusion, Mr. Chairman, while I heartily agree that there is a need to make corrections in our balance-of-payments position of even greater magnitude than proposed in H.R. 8000, I cannot support a measure which is so vaguely assured of temporary success and so certain of long term adverse impact. This is not a time for more "gimmicks." It is a time for realistic reappraisal aimed at basic solution of the problem. I urge my colleagues to vote against H.R. 8000.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from Texas [Mr. ALGER].

(Mr. ALGER asked and was given permission to revise and extend his remarks.)

Mr. ALGER. Mr. Chairman, I am happy to take part in a debate where I feel once again the members of the Committee on Ways and Means will endeavor to give a well-rounded viewpoint on this legislation.

I would like to relate my views primarily to the minority report that will be found on page 76 of the report accompanying the bill. I am impressed, Mr. Chairman, by the fact we are really considering two conflicting matters and blending them together.

On one hand, we call this program temporary, yet all of us know in our hearts that this will become permanent. There is nothing more permanent in Government than a temporary program. Therefore I shall relate my remarks on the assumption that this will be a permanent program because I cannot believe, from my 10 years here, this is going to be temporary.

There is the danger of using this expedient solution, even though it is alleged that it may do a little short range good, there will be greater overall long range dangers. That will throw out a smoke screen to hinder a correct solution of the problem.

I would like to touch on several of the considerations which I believe to be the correct solution. First I want to quote from page 76 of the report this statement that I believe is correct:

Even the Secretary of the Treasury was forced to admit that the long-term effect of this legislation will be adverse to our balance of payments. In fact, this was cited as the reason for making the legislation "temporary".

It strikes me, Mr. Chairman, as we would do something about balance of payments or rather the imbalance of payments and the gold outflow within that solution, the fact must not be denied that when we invest money we make money. It takes money to make money. When we invest overseas there is a flow of cash returning to this country which in the long run helps correct the imbalance of payments. That is diametrically opposed to the argument presented to us in connection with this pending legislation.

I ask you to remember that one of our great strengths has been our free capital market. I do not agree with those who think we will solve this problem on a temporary basis by hamstringing even to a limited extent the free money market.

What are the problems we have facing us? As I see it, they are very plainly stated on page 81 of the report:

Instead of compromising our position of financial leadership of the free world by curtailing private outflow of capital, we should reappraise our governmental expenditures abroad. Governmental expenditures should be reduced before private investment.

In other words, Mr. Chairman, our problem is the fact that we have not been giving money away abroad. We have been giving it away to the extent of over $100 billion since World War II. Lots of this was necessary, of course, as we helped shore up the economy of others and the defense of the world. But we have been giving money away, and it is high time we stopped this form of gold outflow. The gold outflow follows our giving it away.

Second, our trade in this world is not reciprocal. The foreign nations are not matching our tariff cuts. If they would we would see a finer balance of payments than we are now seeing.

I would like to conclude with two quotations from the report. On page 82:

The tax rate reductions in the proposed Revenue Act of 1963 are relied upon to bring about a substantial increase in consumer purchasing power in the United States. Such an increase will inevitably result in a corresponding increase in merchandising imports. Tax reduction will produce no offsetting increase in merchandise exports. As a net result, the U.S. commercial trade balance may be reduced.

In other words, a further imbalance of payments and increased gold outflow.

To counteract this effect it is necessary to encourage investment abroad, with the accompanying increased return on such investment. This bill is a backward step toward the solution of the problem. Instead, we should be striving to increase U.S. ownership of foreign income-producing assets.

In other words, the answer is just the reverse of the action we are taking today.

Finally, let me quote the concluding paragraph of the report:

If the United States is to maintain its position as leader of the free world in the cold war with the Communist bloc, and particularly in the economic confrontation, we must maintain our position as the financial leader of the free world. That position can be maintained only so long as we provide a free capital market. Our position of leadership imposes upon us that burden. Indeed, to be banker to the world is a profitable occupation. This bill would seek to destroy that position. It reflects a "defeatist" attitude which we cannot accept.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 10 minutes to the gentleman from New York [Mr. DEROUNIAN].

Mr. DEROUNIAN. Mr. Chairman, the purpose of H.R. 8000, as discussed here today, is to restrict the flow of U.S. investment capital abroad in order to alleviate our unfavorable balance of payments. While no one could be naive enough to claim that our balance-of-payments problem was not serious, one can question the need for, and the purpose of, this particular legislation.

This legislation has been labeled as "temporary" by its advocates. It has often been said that nothing about Government is temporary. If we stop to analyze this statement it contains a lot of truth. About the only thing in Government which is temporary is the men who run it.

We have only to consider the Korean war tax rates as a good example of a so-called temporary measure. These tax increases were enacted at the time of the Korean war to raise temporary revenues to relieve the financial strain on the Government necessitated by our military mobilization. Some 10 years later we are still annually extending these taxes. The Government has come to rely on their revenues and there is little doubt but what they will be around for several years to come. This is merely one example of what is meant when we talk about "temporary" legislation. I am sure my colleagues can think of many others.

When we consider this bill, let us consider it with our eyes open. This so-called temporary tax could and in all probability will become permanent. Let us profit from our experience with other temporary measures. It is very difficult to undo that which has been done.

This legislation deals only with the symptoms and will not—under any stretch of the imagination—remedy our balance-of-payments problem. While it might reflect some slight improvement over the short run, there is no doubt in my mind but what it will not bring any lasting relief. For this reason it is illusory. It can create the false sense that we have finally come to grips with a problem which has troubled not only this administration—but prior administrations.

The real problem in our unfavorable balance of payments, as we all know, has been the rate of Federal expenditures overseas. While tourists traveling abroad spend U.S. dollars and while U.S. investors do likewise, the greater sum in our imbalances are those amounts expended for both military and financial aid in other countries of the world. While I do not advocate that we terminate our foreign aid program, I do maintain that it is time that we started budgeting our foreign aid dollars.

This Congress, in the session just completed, made a serious attempt to cut back on foreign aid expenditures. However, after these cuts were made and the bill enacted into law, the administration made public the fact that due to flexibility in carryover new obligational authority they would be able to spend the same amount of money this fiscal year as they did in the past fiscal year. In other words, these hidden funds, brought to light only after passage of the aid bill, will in fact negate to a large extent any economies this Congress attempted to impose on our aid program.

Since World War II we have spent in the neighborhood of $100 billion in aid to other countries of the world. Yet, at the same time—according to our President—there is a need to declare war on poverty here at home. We cannot hope to cure our balance-of-payments problem—and satisfy the needs of our own people—if we continue to make expenditures of the magnitude that we have been making in the area of foreign aid.

This legislation is not the first attempt by this administration to sweep our balance-of-payments problem under the rug. The administration has been encouraging Western European nations to prepay their debt obligations to the United States and to pay in advance for military supplies. In addition, the Treasury has borrowed funds abroad which, at the option of the lenders, are repayable at a fixed rate of exchange in a foreign currency. These schemes have been resorted to, to bring about an improvement in our balance of payments "on paper." But, that is all it is, an improvement on paper.

Over the long run, this legislation will adversely affect our balance of payments. Over the long run we benefit from U.S. investment abroad. The return on investment once repatriated in the form of interest or dividends acts favorably on our balance. We are being asked to give up this long-term benefit to realize a short-term "fictional" improvement in our balance of payments.

In addition, we are being asked to turn our backs on what is happening in the world around us. As the other countries of the world become more heavily industrialized they are imposing restrictions on imports. This has necessitated U.S. investment overseas in order to maintain and expand the markets for U.S. products.

Further, H.R. 8000 is objectionable because of the manner in which it was imposed. The late President Kennedy, in his balance-of-payments message of July 18, 1963, proposed this tax and further proposed that it be retroactive as of that date. This means that while the bill may not become law until late this spring—if it becomes law at all—our foreign capital market has come to a virtual standstill. Any desired effect which the administration has hoped to achieve by this bill is being achieved by the delay in enactment—and not by enactment.

At the time it was proposed, the committee was involved in the long deliberations requisite to writing a tax bill. It was evident at that time that your committee was giving priority to the tax bill, H.R. 8363, and that no other new legislation would be considered. Nonetheless, the interest equalization tax was proposed. Since that time, U.S. investors have been plagued with the indefiniteness and uncertainty of this proposed retroactive tax.

The administration has been successful in curbing foreign capital investment by U.S. investors by this threat—a threat imposed not by legislative action, but by Executive decree. This is why the administration has not pushed for its early enactment. This is why Secretary Dillon told the Senate Finance Committee that he would not ask them to interrupt their hearings on the tax bill to consider H.R. 8000.

As the bill finally evolved from your committee, it exempts more transactions than it attempts to tax. It exempts direct investments, short-term foreign loans and long-term foreign bank loans. In addition, by Presidential authority, Canadian transactions have been exempted. While those exempted might tend to feel safe, this bill can serve as a club for the administration to use to compel even those exempted to fall into line. If they fail to see the handwriting on the wall and do not restrict their operations, the administration will propose another retroactive bill to remove the exemptions.

Secretary Dillon, in his prepared statement before your committee, stated:

> Other industrialized countries, to support their own rapid growth, should develop their own capital market facilities for mobilizing and distributing their own domestic savings.

I am sure my colleagues from the New York greater metropolitan area in particular will want to consider carefully the import of this statement.

Could it mean that New York City will lose its position as the financial capital of the world? My colleagues on the other side would probably answer, of course not. However, the Secretary of the Treasury is not quite sure himself. When I asked him the same question during the hearings on this bill, he answered: "I hope it will not have any such effect." I need not point out to my colleagues that hoping is like wishing—it does not necessarily make something true.

As a New Yorker, I have always been proud of our fair city and its position in the financial world. I do not want to see New York become a second- or third-rate financial community in the eyes of the rest of the free world.

Under this bill, are we not saying, sorry boys, but take your business elsewhere. Would we not be practicing a form of "financial segregation." If the color of your transaction happens to be wrong and, therefore, not covered by an exemption, you will be turned away.

The United States has long been recognized as the capital market of the free world. We are now being asked to abdicate this position, and in turn we are asking the other nations of the free world to establish independent capital markets. This is being done merely to improve "on paper" our balance-of-payments problem, and in avoidance of solutions which will bring about a real improvement. I seriously question the desirability of forsaking our role as a prominent world banker at a time when we are involved in a life struggle with the Communist menace.

If I were a trade protectionist I could vote for this bill without any trouble whatsoever. However, I have always been for freer trade, with true reciprocity. Let us not be fooled, this is a protectionist measure, in conflict with the administration's foreign trade program.

Mr. Chairman, I strongly urge the defeat of this legislation.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from Illinois [Mr. COLLIER].

(Mr. COLLIER asked and was given permission to revise and extend his remarks.)

Mr. COLLIER. Mr. Chairman, I am in the somewhat uncomfortable position of being one of two members on the Republican side of the committee supporting the legislation before us today. I do so because there is no question in my mind that we must take some positive and definite steps at this time to curb the flow of U.S. gold abroad.

When one stops to consider that on March 3, 1963, our gold reserves were $15.920 billion while on March 3, 1964, they had shrunk to $15.460 billion, the problem is obvious.

In supporting this legislation I certainly am not under any impression that this will solve the serious problem of our balance of payments. Instead, I would admit that this is merely a step in the direction we must take if we are to realistically face up to the problem before us.

It would be sheer folly, however, to assume that enactment of this bill without a reevaluation of our foreign spending policies will serve any good purpose. Unless we implement the legislation with a reappraisal of our foreign spending, particularly in the area of getting some of our allies to share in the cost of the common defense of the free world, we may find that the net result of the legislation will merely be a "flyspeck" effect upon our gold reserve problem.

In the course of the deliberations on this legislation the exemptions which were made vastly improved the bill.

I am not prepared to believe, as do some of my good colleagues with whom I usually agree, that this will necessarily become a permanent program. Certainly after we have lived with it for 2 years, assuming that the bill is enacted into law, we shall have an opportunity to review its effect. I am prepared to believe that if it does not in some degree achieve the purpose for which it has been brought before the House today, Congress in its wisdom will not extend the program.

In summarizing my point of view on this, I repeat that we must take some positive action. Certainly, we cannot turn our backs on the fact that this gold reserve problem is a critical one. We have seen our gold reserves shrink from approximately $26 billion in 1946 to the present alltime low of less than $15½ billion. Hence, we must face up to the problem. The degree to which we will solve it by enactment of this legislation is to some extent problematical, but I am convinced we must take this first step. I believe this should be the first step in the right direction.

I reiterate that we should implement the legislation today with an agonizing reappraisal of our foreign spending programs and policies and the effect they have had in recent years in creating the critical situation in which we find ourselves today.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 10 minutes to the gentleman from New York [Mr. REID].

(Mr. REID of New York asked and was given permission to revise and extend his remarks.)

Mr. REID of New York. Mr. Chairman, all of us, as Members of the Congress, are from time to time faced with difficult decisions. We vote on bills that we may not think are entirely perfect, but I submit today that as my distinguished colleague from Missouri [TOM CURTIS] has pointed out, this is a unique bill; this is a dangerous bill. In my judgment, we should look at this legislation today very, very carefully.

Now all of us who have had some little familiarity with our balance-of-payments problem recognizes that it is serious and that it exists and that we need to do something about it. The question here is not whether we have a balance-of-payments problems but whether this measure will in fact provide the remedy, or whether in fact it will provide merely short-term benefits, benefits that are relatively modest against very substantial risks.

The figures, as many of the Members, I am sure, realize who have studied this more closely than I, are hardly firm.

Secretary Dillon has said and I quote from page 112 of the hearings:

> This is something that you could not estimate firmly at all because, as I pointed out in my statement, it depends on what happens in capital markets abroad, what happens in our own capital markets, and on the needs and desires of these foreign countries for new capital.

Therefore, what we are dealing with today are essentially estimates.

Now, I would like to point out the dangers that I believe are inherent in this legislation.

First of all, it is a restraint on the free market. We have long believed in this country in the free enterprise system, and I think we should risk the free enterprise system with very great caution. This, in fact, is a new protective tariff on capital transactions; it is economic isolationism; it is risking a precious national asset, our free market and our free enterprise system. More than this, it affects the confidence of our markets and the stability and value and confidence in our dollar. On top of this—let us make no mistake about it—it could invite counterrestraints in other countries.

To underscore this point, if I may, let me mention just two figures which I believe are relatively accurate. One is that the U.S. investments and assets abroad total roughly $80 billion, and foreign investments and assets in this country total approximately $47 billion. In both cases it seems to me that these are substantial and not small figures.

Now, what will this bill do? I have heard various estimates. I have heard no one put on the line categorically what they think this bill will do. I have heard estimates ranging from an annual improvement of our balance of payments from $200 million to $500 million, and I believe the Treasury Department even indicated it might represent a short-term improvement of $1 billion. There is, however, distinguished testimony that indicates it may only represent an improvement in the area of $200 million to $500 million.

For this amount, or for whatever this figure is, do we seriously want to risk our free enterprise system and our market; $80 billion of U.S. investments abroad and $47 billion of investments of foreigners here?

Now, what could happen in terms of New York? New York has been mentioned in this debate. Certainly I believe all of us can recognize that there is a possibility of a shift of our capital markets from New York, from the United States, to Europe. Also there are distinguished men in the financial community who believe that the Europeans, if the capital markets moved there, would be unable to finance some of the new equity and debt issues, and that they would have to call on U.S. dollars; and that if you carry this out one step further, it could lead to an embargo by this country on the dollar to prevent a run on gold. So, in my judgment, it is running a very serious risk with our market and the possibility of a shift overseas.

The distinguished chairman of the Committee on Ways and Means has raised the question, Are there other alternatives? He has said clearly, and I think forcefully, that we have a problem, and that we must meet it. I would agree with that. The question, however is, Are there any other alternatives to the bill? Have we really examined with all the care and prudence and time that we should, whether there are alternatives before we act here today?

In my judgment there are several alternatives. One is a voluntary committee, for voluntary action. I would like to read briefly from a letter from a man who I think is distinguished and knowledgeable in this field. He said this to me in a letter:

> Following World War I, when this country first became an important factor in foreign lending, it was the custom not to make foreign loans without prior informal clearance with the State Department. It seems to me that something of this sort might well meet the requirements of the present situation, without some of the apparent disadvantages in the administration's present proposal. If, for example, legislation required the clearance of foreign loans with the State Department and the Treasury, our national political and financial interests should be adequately protected.

There is one other suggestion that I would call to the attention of the Members of the House. It comes from a local newspaper for which I have high regard, the New York Times. It refers, in an editorial of March 4 entitled "Turning on the Tap," to the possibility of a capital issues committee. Let me give you just a few sentences from this editorial from the New York Times. It says this:

> But we believe that the best way to get rid of the uncertainty and to turn on the tap is not through enactment of the tax but through a Capital Issues Committee. Mr. Johnson could establish such a committte by Executive order, to approve or reject new foreign issues. This would be a much simpler and more direct way of dealing with the problem. Instead of posting a tariff on capital, the Committee could decide just how much of an outflow is sustainable and let the market do the rest.

I do not propose, out of my ignorance, to suggest all of the various alternatives that are possible. I merely would suggest a few. I would suggest that distinguished Americans who are knowledgeable, who have had real experience, who have had experience in several wars and in peace believe there are alternatives.

Finally, two other points on this bill. The danger is, it seems to me, that this could lead to further controls, to further restrictions. It might be that the Treasury would find that it could not contain the balance-of-payments problem. It might be that it would come back to this House and ask once again for reenactment or continuance of this legislation. This immediately will raise—and I think it has already raised in New York—the question of how long is this legislation going to be on the book? The market does not know. The confidence of the market has been shaken. Indeed, the confidence of the market in Japan has been shaken.

Mr. Chairman, finally, this point. I believe we are the leader of the free world. However, if we are to continue to be the leader of the free world and if we are to have a strong bipartisan foreign policy, we must be strong economically in our free enterprise system, and we must be solvent. In order to move ahead we must maintain in my opinion a free market. If we do not maintain a free market, if we restrict our free market, if we have a shift of our free market, then the Soviet will have gained a goal that they have long sought: the weakening of our economic system. This could represent a signal victory for their belief that our system cannot prevail.

The CHAIRMAN. The time of the gentleman from New York has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield the gentleman 2 additional minutes.

Mr. REID of New York. Therefore, I believe we should very carefully consider what we are proposing to do here.

Mr. Chairman, this legislation carries implications to our financial commuity, it has implications to our entire economy, it has implications with regard to our entire free enterprise system, and it has very serious implications to our foreign policy and the strength of the United States. If we are to remain strong we must have a sound, free economy to back a strong bipartisan foreign policy—that will be effective and meaningful—because it is respected.

Mr. HORTON. Mr. Chairman, will the gentleman yield?

Mr. REID of New York. I would be happy to yield to the gentleman from New York.

Mr. HORTON. Mr. Chairman, I rise in opposition to this bill. I take this opportunity to compliment the gentleman from New York for his very fine presentation of the difficulties that are involved in this bill. I wish to compliment the gentleman for his underscoring the need for this country to protect the free enterprise system and for setting forth alternatives that are possible to solve the balance-of-payments problem.

I believe the gentleman has very succinctly presented to the members of the Committee the problems that the passage of this bill would bring about and for pointing out the dangers that we should avoid by voting against this bill.

Mr. Chairman, I wish to anounce that I shall support a motion to recommit this measure to the Committee on Ways and Means.

It is not necessary for me to to repeat the convincing arguments against enactment of this levy which have been presented by the distinguished gentleman from Wisconsin [Mr. BYRNES] since I concur completely with their content. However, I do want to call the attention of my colleagues to a pertinent question that a prominent Rochester, N.Y., businessman and my constituent has raised.

Mr. Richard L. Turner, chairman of the board of the Schlegel Manufacturing Co., recently emphasized to me the great importance small businessmen attach to expanding their operations in foreign commerce. He reasons, and I feel correctly so, that certain provisions of H.R. 8000 would restrict such beneficial expansion on a basis that is especially inequitable to small business.

I would like to include with my remarks at this point an excerpt from a letter Mr. Turner wrote me which amplifies an inequity inherent in this measure:

> It is my understanding that the proposed H.R. 8000 exempts from its application direct investment by U.S. companies in foreign operations which are in excess of 10 percent of the stock of the foreign corporation. My experience, both at Schlegels and as an adviser to other small- or medium-sized companies investing abroad, has been that such a 10-percent rule would not be a substantial impediment. I could, however, conceive a situation where a small U.S. company might, because of shortage of funds for investment abroad, transfer know-how to a foreign company in return for less than 10 percent of its stock, or on some kind of step basis where, at least in the initial stages, the investment might be below 10 percent. In such circumstances the 10-percent rule might constitute an impediment to a company which is trying to expand its active operations abroad. And the interesting point to me is that this-10-percent rule, which might constitute an impediment to a small company with limited capital for foreign investment, would never constitute an impediment to a larger company.
>
> I personally feel very strongly that our Government should in every way possible encourage the medium- or small-sized U.S. company in the expansion of its business abroad. The larger companies have already

taken these steps, and I am fearful that in tightening up abuses that have invariably arisen while the larger companies were expanding abroad, the tightening-up process may impede similar expansion by the small company. The smaller company almost needs special encouragement; almost by its very nature its markets are specialized limited markets, and it is therefore even more important for it, than for the larger company, to be able to secure as broad a geographic market as possible to cover its research and deevlopment, tooling, and other costs.

Mr. Chairman, it is imperative that effective means be devised to curb our nagging balance-of-payments deficit. It is my judgment that the bill before us misses the mark.

I favor and would willingly work for measures to encourage the momentum of the domestic economy that would make domestic investment more attractive. Let us create economic improvements to curb the drain of U.S. capital overseas without using artificial approaches that restrict economic expansion.

There is no doubt that if U.S. interest rates climbed to a level comparable with those of other industrial countries, we would be well on the way to materially reducing the inducement that now exists in foreign money markets. These interest rates will go up naturally if we can assure expanding economic activity. I think an increased demand for credit brought about by a healthy economy that practices Federal spending restraint is much to be preferred over deliberate tight money markets and patchwork proposals.

Because Government policies have done more to bring on the balance-of-payments problem than any other single factor, Government surely has a role in attempting to alleviate it. We should search for those places where military and foreign aid spending abroad can be cut, for additional avenues of export promotion, and for an effective end to the fiscal failures that have bred a basic distrust of our dollar's stability.

Mr. REID of New York. I thank the gentleman.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the gentleman from Florida [Mr. HERLONG].

(Mr. HERLONG asked and was given permission to revise and extend his remarks.)

Mr. HERLONG. Mr. Chairman, this business of the balance of payments is a great deal like the weather. Everyone talks about it but no one can do anything about it. However, in this particular case today we have an opportunity to do something about this problem of our balance of payments.

Mr. Chairman, many suggestions have been made which start with the premise that something must be done about this problem. I would simply suggest that as far as this voluntary action suggestion we have just heard is concerned it would probably work just about like the voluntary imports on beef have worked so far. All of us know that this is a very bad situation. The level established is the critical test.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I am glad to yield to the gentleman from Arkansas.

Mr. MILLS. Did the gentleman from Florida understand that the recommendation of the gentleman from New York of this voluntary control approach amounted to an imposition of quotas; is that the understanding of the gentleman from Florida of his proposition?

Mr. HERLONG. I am not sure that I understood it but I did hear the gentleman suggest a voluntary approach to the problem.

Mr. MILLS. If the gentleman will yield further, the gentleman from New York suggests that before anyone could make a loan to anyone abroad they would have to obtain the approval of the State Department and at least that is in the area of a quota, is it not?

Mr. HERLONG. It certainly is.

Mr. MILLS. Presumably the State Department would say to them that only so much could go abroad and to which countries. Does the gentleman from Florida—whom I know is a great advocate of the free enterprise system—know of anything that is more contrary to the free enterprise system than quotas or controls imposed by Government?

Mr. HERLONG. I certainly do not, sir.

Mr. REID of New York. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I am glad to yield to the gentleman from New York.

Mr. REID of New York. I would like to address a question to the chairman of the Committee on Ways and Means, the gentleman from Arkansas [Mr. MILLS] with reference to the remarks which he just made. I was not talking about quotas. I was talking about voluntarily checking at least in one instance with the State Department.

I am told by distinguished people who did this during World War I—and I think there were similar indications of this in the Korean war—that it worked. There was voluntary consultation, and if I am not mistaken, Great Britain has the same kind of relationship wherein large borrowings are checked with the Bank of England and with the government.

Mr. MILLS. Would the gentleman from Florida yield in order that I may respond to the gentleman from New York?

Mr. HERLONG. I yield to the gentleman from Arkansas.

Mr. MILLS. Do I understand the gentleman from New York to say that his program is nothing more than a willingness on the part of the American citizen to check with the State Department before the American citizen buys a foreign security and then regardless of what the State Department says, the American citizen goes ahead with his action as he sees fit?

Mr. REID of New York. In answer to the distinguished gentleman may I say that I was trying to list some possible alternatives that I thought could be explored more deeply than perhaps has been the case. The theory of checking voluntarily has worked. The State Department and the Treasury Department have found it has worked in the past. There are other ways of doing this, through Executive order of the President, such as the New York Times has suggested. We could study the British experience which apparently has worked.

My concept is that there are other alternatives and that we should explore each and every one of them before we do anything that might even slightly disturb the market.

Mr. MILLS. May I ask the gentleman, would he say that we should run the risk of what might occur in our balance of payments and the flow of dollars from the United States by defeating this, and seeking at a later date an alternative, or would he suggest, before final disposition of this has occurred, an alternative should be submitted in connection with it?

In other words, do you want a lapse in the situation or do you want the alternative now?

Mr. REID of New York. The Chairman of the Committee on Ways and Means is much more expert in this field than I, but it is my impression from reading the hearings that the market has already discounted much of the effect of this bill, that indeed the exclusion has also removed a large area which originally was a matter of concern. So that what we are dealing with, if I understand the matter correctly, is a relatively modest amount of $200 million to $500 million. I think there are ways of dealing with the balance-of-payments problem involving $500 million.

Mr. MILLS. The gentleman made that statement in his remarks on the floor. We are not dealing here with $200 million or $500 million. The record clearly indicates that in the 6-months period after announcement of this proposal we effectively reduced the imbalance in our payments by an amount of $1.8 billion, according to the Treasury. This may not be sustained at this same high level during the 2 years, 1964 and 1965, but it is anticipated the difference will be a billion and a quarter to a billion and a half. So I say this is not a matter of $200 million or $300 million. This is to me a big amount of improvement in the imbalance in our payments.

Mr. REID of New York. Might I ask the distinguished chairman if he recalls the testimony of Mr. Andrew N. Overby, former Assistant Secretary of the Treasury in the Eisenhower administration? In his testimony, on page 222 of the hearings, he indicates he feels the amount is substantially less than that.

Mr. MILLS. The gentleman is referring to testimony that was given before the 6- or 7-month period had passed for which we now have information. If the gentleman will look at the report and look at the statement that we have put in the record, he will find that the actual facts are that the saving is far beyond what this gentleman predicted it would be.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. The gentleman knows that every figure that we have on what the consequences of this bill will be is completely speculative.

You have already had a shift from long terms to short terms which you have already exempted under the bill. So that this idea the Treasury can come up with a perfect figure of $1 billion or $1.5 billion or $2 billion is a bunch of malarkey.

Mr. MILLS. I am in complete disagreement with the gentleman from Wisconsin when he says we do not have figures. We do have figures on what has occurred in our deficit in our balance of payments. Last year, between the first half and the last half, which is the testimony I am talking about, the difference was in the neighborhood of $2.9 billion, of which $1.8 billion was due entirely to this action in controlling the capital movement outside the United States.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I am going to make one short statement, and you can have the floor.

Mr. CURTIS. I wish to make just a short statement.

Mr. HERLONG. I yield to the gentleman.

Mr. CURTIS. I wish to support what the gentleman from Wisconsin [Mr. BYRNES] said. I may say to my chairman that throughout the hearings Secretary Dillon admitted that these figures are but estimates and are most speculative and are very difficult to substantiate.

Mr. MILLS. What I am trying to do is bring the gentleman from Missouri and the gentleman from New York beyond the hearings up to the actual facts in their thinking. We have the facts on what has been happening in the last 6 months. I have just given them to you in answer to the gentleman from New York.

Mrs. GRIFFITHS. Mr. Chairman, will the gentleman yield?

Mr. HERLONG. I yield to the gentlewoman from Michigan.

Mrs. GRIFFITHS. I should like to ask a question, and I should like the chairman or the ranking member to answer it. If this bill is beaten on the floor today, in the opinion of the ranking member of this committee what will be the effect upon the gold outflow tomorrow?

Mr. BYRNES of Wisconsin. In my judgment, it would have no effect tomorrow, if you are talking about gold, and if you are talking about foreign borrowing, it would have no effect because these operations do not take effect overnight.

Mrs. GRIFFITHS. The mere suggestion of the President was disastrous upon the market of Canada; is that not true? Did they not suffer the next day the greatest loss of gold in the history of Canada?

Mr. BYRNES of Wisconsin. There is no question it was disastrous to Canada. That is why the President came right back and said to Canada, "We will exempt you from the operation of this act."

The CHAIRMAN. The time of the gentleman from Florida has expired.

Mr. MILLS. Mr. Chairman, in view of the fact that the gentleman from Florida, although recognized was not permitted to use his time, I yield him an additional 10 minutes.

Mr. HERLONG. I thank the gentleman.

Mr. MILLS. Now may I ask the gentleman a question?

Mr. HERLONG. May I say to the chairman that I hope the membership appreciates the contribution I am making.

Mr. MILLS. Let me inject myself into the colloquy between the gentlewoman from Michigan and the gentleman from Wisconsin. I think the gentleman from Wisconsin is probably right in responding to the gentlewoman from Michigan as he did, because she said that she wanted to know what the effect would be in 1 day. I think the gentleman probably advised her correctly that sales would not increase in that 1 day. But I should like to ask the gentleman from Wisconsin if he makes the same prediction about a 3-, 4-, 5-, or 6-month period in the future? Will we not have a repetition in the first half of this year, the first and second quarters, of exactly what we had in 1963, that brought about this very action? Most of us think that is what would be the case.

Mrs. GRIFFITHS. I should like to thank both the chairman and the ranking member. I must say that in my judgment both gentlemen are too optimistic. The effect on the market tomorrow and next week would be disastrous if this bill were defeated. The loss of gold would be tremendous. As that loss of gold continued we would have to take other and more stringent measures, for other reasons than the defeat of this bill. In my opinion, whether you were for this bill in the beginning or not, and I was not, the effect of the bill has been to stop to some extent the loss of gold. Therefore, we cannot at this stage vote down this bill without disastrous effects.

Mr. HERLONG. I thank the gentlewoman. I appreciate her statement. I will say to her that if we do not do that, the exact reverse of what is happening will happen.

Mr. KEOGH. Mr. Chairman, since the gentleman from Florida has been so generous in his yielding, I wonder if he would be good enough to yield to me to propound a question, not of him, but of the chairman of the standing committee.

Mr. HERLONG. I am happy to yield to the gentleman.

Mr. KEOGH. Mr. Chairman, I would like to make an inquiry as to the application of this tax in the case of the exemption which the President may make available as an aid to international monetary stability. As you indicated in your opening statement, it is anticipated that the President will make use of the authority under this provision to exempt from tax new issues of Canadian companies. It is my understanding from a statement which appears in the committee report that the Canadian Government through its interest rate policy, or otherwise, is to undertake to see that borrowings by Canadians in the United States are made only to the extent necessary for Canada to balance its international accounts.

From the bill I understand that the Executive order issued by the President might well be made applicable to a limited aggregate amount of new issues or to new issues acquired during specified periods of time or to new issues of certain categories of issuers.

The problem on which I have received an inquiry involves a Canadian corporation which is proposing to offer to its stockholders, through the issuance of subscription warrants, convertible subordinated debentures. To the extent these debentures are not subscribed for by the company's shareholders they will be offered to the public through an underwriting group.

In the event an Executive order is issued with respect to new Canadian securities, is it your view that such an Executive order would exempt from tax the type of securities I have just described?

Mr. MILLS. Mr. Chairman, will the gentleman from Florida yield?

Mr. HERLONG. I am happy to yield to the gentleman.

Mr. MILLS. In response to the gentleman's question, it is my understanding that the administration does not, initially, at least, intend to provide any limitations with respect to the Canadian exemption on new issues. Therefore, if the debentures you have in mind are issued before any restrictions are imposed—and it is hoped that no restrictions will have to be imposed—they would appear to qualify as new issues in this regard.

As I understand it, this company will issue subscription warrants initially. These, under the bill, are not subject to tax as such. The convertible subordinated debentures which you mentioned are taxed as indebtedness where they are convertible for 5 years or more into stock. If the debentures you have in mind have such a conversion—thus are treated as indebtedness—they are considered as new issues until 60 days after the interest begins to accrue. This would mean that they would still be classified as new issues if they were held by American underwriters at any time within 60 days after the date interest on the debentures begins to accrue.

Mr. KEOGH. Mr. Chairman, I am grateful to the chairman of the standing committee for his answer. I am more grateful to the generous gentleman from Florida for his yielding. I have no further questions to propound, and I appreciate the gentleman's courtesy.

Mr. MILLS. Mr. Chairman, I yield 5 additional minutes to the gentleman from Florida [Mr. HERLONG].

Mr. HERLONG. Mr. Chairman, 7 months have elapsed since the interest equalization tax was first proposed on July 18, 1963. This period has provided us with a clear picture of just how effectively this type of measure can fulfill its objective of reducing the outflow of long-term portfolio capital from the United States. The period has also given the Congress, the Treasury Department, and the securities markets themselves an opportunity to observe how the proposed tax affects trading on the markets and thus to make the adjustments in the proposal necessary to adapt market operations.

Insofar as our balance-of-payments position is concerned, we have seen firsthand evidence of how effectively this type of tax works. Since the interest equalization tax was announced, new issues of foreign securities purchased by Americans have consisted almost wholly of those that were already in process on the announcement date.

As a direct result, American purchases of new foreign securities dropped sharply—from an annual rate of $1.9 billion in the first half of the year to $850 million in the third quarter and to a rate of $440 million in the fourth quarter.

An equally dramatic improvement showed up in American purchases of outstanding foreign securities—a shift from a net outflow at the annual rate of $225 million in the first half to a net inflow at an annual rate of about $270 million in the second half.

The decline in U.S. purchases of all foreign securities accounted for an improvement of $1.8 billion at an annual rate in the second half of the year.

We must, of course, recognize that the virtual elimination of new issues placed in the United States will not continue. Once the tax is passed, we can logically expect a return to a more normal flow of new isues that will be placed in the United States. But the evidence at hand makes it clear that this flow will be very substantially below the dangerously high levels of the 12 months preceding July 18 of last year.

Even though negotiation of new foreign issues has temporarily come to a virtual standstill, it is important to remember that active trading markets have been maintained here for outstanding foreign securities held by American investors.

By August 17, the effective date provided in the bill for securities traded on U.S. stock exchanges, the principal exchanges had worked out and adopted orderly procedures for separately identifying the transactions that would be subject to the tax: that is, foreign securities purchased by Americans from foreign holders of those securities. The same kind of procedures were subsequently adapted for trading on our over-the-counter market.

Tax-free selling of foreign securities by U.S. investors has continued on a regular basis. The tax would not be applicable to such transactions. Since Americans already hold outstanding foreign securities amounting to over $12 billion, there is ample opportunity for U.S. investors to purchase foreign securities from other Americans without paying the tax. Premiums have developed at times in some cases but they have not been large.

We must also keep in mind that Americans holding foreign securities can also sell them to foreigners as well as to other Americans tax free. The volume of transactions in foreign securities on the exchanges has declined from pre-July 18 levels. But it remains substantial. Also American dealers have continued to arrange transactions among foreigners in foreign bonds—which they may handle tax free under the terms of H.R. 8000.

In sum, Mr. Chairman, experience so far shows this type of measure to be most effective. It will reduce the strain on our balance of payments and gold supply by reducing the outflow of long-term portfolio capital. It will do so without disrupting our own capital markets or creating undue hardships.

Mr. Chairman, I would now like to comment on the constitutionality of this bill. The proposed tax would be applied to certain acquisitions made after the date of the proposal of this tax to Congress by the President in his special message of July 18, 1963, but the tax would be paid at the time of filing the purchaser's first return after the end of the calendar quarter in which the act is passed.

The General Counsel of the Treasury Department has made an exhaustive study of the question of the constitutionality of the effective date of the bill and, in an opinion dated August 6, 1963, has concluded that in the light of the law as revealed in decisions of the Supreme Court, other Federal courts, and State courts, this provision would be sustained as constitutional. I should like at this point to request that the full text of the opinion of the General Counsel of the Treasury be incorporated in the RECORD.

In summary, the general counsel's opinion shows that taxation may apply constitutionally to prior but recent transactions, whether the tax is an income tax or an excise tax, whether the excise tax is on gross receipts or on completed transactions, and even in those situations where the purpose of the legislation is solely to raise revenue without additional considerations of public policy. The reasonableness of such an effective date feature is strengthened, of course, where as in the instant case the Congress has additional compelling reasons and purposes of public policy in choosing the earlier date. The July 19 effective date was necessary to permit orderly consideration of the proposal by the Congress, since absence of such a date would have resulted in a rapid and uncontrollable acceleration of foreign borrowings and thus defeated the purposes of the bill before it was enacted. This effective date has also permitted the development of appropriate market procedures which are reflected in the provisions of the bill.

Without going into detail, nearly a score of decisions of Federal and State courts in the last quarter century have held constitutional the application of taxes to prior transactions; for example, of a new income tax to income not previously taxed relating back as far as 2 years; of a new excise tax to transactions completed several months to a year or more prior to the tax, and increases in the rate of tax or the basis of tax—both income and excise—relating back many years.

In considering provisions of this type, the courts have attached importance to the existence of notice to the taxpayer of the probability that certain income or transactions are likely to be subjected to tax. In the case of the bill under consideration, the President's special message to Congress of July 18, 1963, which was given wide publicity, clearly indicated the intention to have the tax, in general, effective from the date of the message. In the case of acquisitions made on national securities exchanges, the tax applies to purchases after August 16, 1963. Moreover, the administration took the further precaution of publishing in the Federal Register a notice which included the effective date provisions contained in H.R. 8000. This procedure was taken in order to insure the widest possible notice to members of the public of the proposed effective date of the tax Under a provision of law enacted by Congress (44 U.S.C. 307), the filing of any document authorized to be published in the Federal Register is deemed to be:

> Sufficient to give notice of the content of such document to any person subject thereto or affected thereby.

In conclusion therefore on this question of the effective date of the tax, we think it is clear that in any test in court of the constitutionality of this feature of the bill, it would be sustained.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield myself 15 minutes.

(Mr. BYRNES of Wisconsin asked and was given permission to revise and extend his remarks.)

Mr. WESTLAND. Mr. Chairman, I make the point of order that a quorum is not present.

The CHAIRMAN. The Chair will count. [After counting.] One hundred and four Members are present, a quorum.

The gentleman from Wisconsin [Mr. BYRNES] is recognized for 15 minutes.

Mr. BYRNES of Wisconsin. Mr. Chairman, I rise in opposition to the bill. I do so because I believe it is a dangerous policy for this country to pursue. It is dangerous not so much because of what is included in the legislation, or what would be accomplished by the legislation itself, but because of the shift in U.S. policy which is inherent in taking this action.

First, let me point out this is not a tax bill. It is certainly not a bill for revenue purposes. To the degree that it levies a tax, it is a tax to regulate.

I have heard my chairman speak many times about the danger of misuse of the Internal Revenue Code, and that it should be preserved for revenue purposes. I am amazed by his willingness to accept its use as a regulating device, particularly in an area such as this.

We have had, and have today, the one free money market in the world. It is the symbol of the free world. It is the symbol of free enterprise. We have preserved a free market so far as money and capital are concerned. This bill would destroy it. It has been a fundamental policy of the United States, not only as it relates to our own operations, but also as it relates to the free world, that there should be no unnecessary interference with the freedom of capital movement.

This bill is completely inconsistent with that policy. This bill proposes to build a wall around the American dollar and tries to tell us, "Now stay home." It builds a wall that says to anybody who wants to borrow money in this market, "No. We have a wall here that you cannot go through."

I will be the first to admit that this is the most poorly constructed wall, if that is the purpose, that has ever been erected, because it is full of chinks and cracks and openings. There is every way in the world to get around the objective of this bill. If the bill is really to stop the American dollar from going abroad, it will fail its purpose. Under the bill, a foreigner can go to an American bank and borrow indefinitely. There is no restriction on bank loans. There is no short-term or long-term restriction or interest restriction on bank loans. But this bill says that the foreigner cannot go to private individuals, or to insurance companies, for funds without paying a tax. Even then there are all kinds of exceptions. This is a dangerous philosophy, in my judgment, that we are pursuing today, and that is my grievance against the bill.

We have talked, the administration has talked, about the need for a freer exchange of goods and trade in the free world. What does trade depend upon? It depends, if you are going to free it up, on whether you have a free movement of currency. You cannot have trade without currencies that are able to go across national boundaries with freedom of movement. This bill is inconsistent with the trade philosophy of the administration and the policy that this country has been pursuing. In my judgment, if we are looking at our long-range problem of a balance of payments—and that is what we had better start looking at and not some of these short, overnight operations, but we had better start getting to look at the long-range problem—if we are going to look at that, we should be stimulating rather than contracting private investment abroad.

If this bill is enacted, over the long run we are going to rue this day on which we started on this road of restricting American private enterprise abroad. That is what this bill does. This bill is justified as necessary to meet our balance-of-payments problem. I am going to agree that we have a balance-of-payments problem. Certainly we have. But this bill does not solve any of the basic causes of our balance-of-payments problem. It is purely an expedient and, in my judgment, an ill-advised and a dangerous one at that.

The deficit in our balance of payments is not caused by private investment abroad. Investments produce more income from abroad than we reinvest. Income from abroad is on the plus side in our balance of payments. Recognize this: Between 1958 and 1962 income from private foreign investments—and this is the sort of thing we are seeking to close the door on now by this bill—income from U.S. private foreign investments amounted to $15.5 billion. If we had not had that investment, the deficit in our balance of payments would have been $15 billion greater than it was. In 1962 alone, if we look at our balance of payments, the income from private investments abroad was $3.8 billion. That is what we took in. That was favorable; that is as compared to an outflow during that same year of $3.2 billion for new investment, or an advantage to us of $600 million as a result of this broad area of private investment. That and our basic trade are both favorable. But we say, "Oh, we are going to solve this temporary problem," by attacking the very area that has been a salvation to us in this.

It is interesting to note the attitude exemplified by this bill. We are against private people making loans abroad. But what about Government loans abroad? Is there any restriction on that? Of course not. The sponsors of this bill talk about the interest differential; that a foreign borrower can come here and get a private loan at a lower interest rate than he can get the money some place else. What kind of loans do we make to foreign borrowers with taxpayers' money—Government money? Up until a year ago we were giving them 10 years of grace, when they did not pay any interest, and after 10 years only three-fourths of 1 percent. That is an interest differential you might do something about if you want to stop some of these dollars going abroad. Those loans are not assets that will create income for this country. We are not going to get dividends, and the interest that we get is practically negligible, if anything at all, from these Government-sponsored loans.

I point this out only as a distinction between our attitude one day on private investments abroad and the attitude on the next day on Government loans. If it is Government money, if it is taxpayers' money, then the attitude is, "Oh, let us go right ahead," and we do not worry about whether we charge them interest. But we cannot let the American private enterprise system make loans abroad, loans which produce income, which benefit our balance of payments. Yes, this bill hits at the very area that produces a plus, and the only basis that this bill has for being here is that of expediency.

They say here is a place where we can cut down on dollars going abroad and do it pretty fast. But at the heart of our balance-of-payments problem, and we had better admit it, is Government non-income-producing expenditures abroad. That is what is giving rise to our balance-of-payments problem. And this bill is not solving the real problem. I do not see very much being done to solve it.

What are some of the big items in our adverse balance? Of course, the biggest one is the military expenditure abroad, which is about $3 billion of adverse balance. Our aid program comes to over $1 billion of adverse balance. If you want to go into another area that is not producing anything—I am not sure that we should restrict it, but it is not producing anything—you have $2.5 billion spent by tourists abroad; that is, dollars going out but which do not produce anything in exchange.

In this bill you are attacking the one area that helps us, and that is why I say it is a bad policy. Until these other leakages are closed, you cannot correct the problem by restricting normal private income-producing transactions.

They talk about this tax being temporary. That is just a smokescreen. The bill has an expiration date of December 1965. Why, as long as these other basic deficits occur, as long as these other leakages exist, the tax will be continued, and probably broadened. So the day of the American free capital market is gone, and the free world's capital market is gone. This bill, so far as I am concerned, is a misnamed bill from the beginning. It is a tariff bill, not a tax bill. It is a tariff on foreign investment, and it is certainly not interest equalization. Let us make up our minds to that.

That title sounds nice and fancy. But you do not have a uniform interest rate in the other countries of the world. There are some countries whose interest rate is somewhat comparable to ours. I understand that in Switzerland and the Netherlands, for instance, the interest rate is somewhat comparable to ours. There is no one uniform interest rate outside the United States to equalize with. Yet the bill provides a uniform rate schedule for all loans, regardless of the borrower's country of origin. The bill puts a rate of 15 percent on equity securities that have nothing to do with interest, and bear no interest. The tax applies to purchases of shares of stock and non-interest-bearing securities. There is no interest equalization in that aspect of the bill. In fact, in some respects the tax is greater on non-interest-bearing securities than on the bonds and on loans, because if you will look at the bill and the table which appears on page 35, you will notice that with reference to interest-bearing securities the amount of the rate is dependent upon the length of the duration of the loan. It is only after that loan has a maturity which runs over 28½ years from the date of the purchase that you get to the 15-percent rate. But if you buy a stock in a foreign corporation from a foreigner you pay 15 percent on the barrelhead at that time, and there is no variation. You might turn around the next day and sell it. However, you have still paid the rate of 15 percent. You pay it no matter what the yield is and without regard to any other factors which might vary depending on the particular stock.

In addition to the principle involved, the bill is objectionable in that it is a discriminatory tax. It taxes only one aspect of the private expenditure, and that is the private portfolio investment. The bill exempts tourism, exempts direct foreign investments, exempts bank loans, and exempts short-term loans.

In just this one area of private investment you come in and tax and say, "Oh, no, we are not going to allow you to do this." Now, why?

Beyond the areas that are excluded from the bill altogether which I previously mentioned, the bill is full of special exemptions and complications. In addition, the bill gives the President of the United States the wholesale right to exempt entire countries covered under the bill, as he has already said he was going to do as far as Canada is concerned. Canada is really the country that gave rise to the problem. The emergency which brought about this proposed legislation arose during the first two quarters of 1963 when the Canadian securities sold to U.S. residents increased to $632 million. This was the real problem. Yet, the bill, coupled with the President's proposed action, will exempt the same securities from Canada.

The CHAIRMAN. The time of the gentleman from Wisconsin has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield myself 5 additional minutes.

Canada and Japan are the principal countries which have been coming to this market seeking loans and seeking dollars. Yet, it is assumed the President will exempt Canada.

Mr. Chairman, what are we going to do about Japan? Mark this also. Japan is a dollar-deficit country. It must get dollars in one way or the other, or reduce its trade with us. This is an area where our actual trade is going to be adversely affected. You are not going to be able to sell the same amount of goods to Japan.

Mr. Chairman, I would be remiss if I did not grant that early last year there was an increase in the sale of certain long-term bonds in this country. But it is particularly interesting that the proponents of this legislation do not tell us what kind of loans those were. Well, they were mostly governmental. The Secretary of the Treasury admitted it. It was a case of foreign governments coming here to borrow money, seeking lower interest rates. That is what gave rise to the outflow. Early last year $300 million was borrowed in the United States by the Quebec Hydroelectric Commission. For what did they borrow that amount of money? They borrowed it in order to get money to take over 11 private utilities and convert them to public ownership.

I will agree, we should clamp down on governmental borrowings of this type. It would solve a great part of the problem.

Just before the bill was sent to us by the President, the city of Vienna was contemplating a bond issue of $20 million to be marketed in this country. When the President's message was received, and the bill was introduced with a retroactive date of July 19, what did the city of Vienna do? It just went to the New York banks. It said "We will not use bonds now, because they might be taxed." Instead, the city of Vienna went to the New York banks, and within 10 days had the money, relying on an exemption for bank loans which is still available in this bill.

If the committee and if the Treasury had directed itself to two areas we would not now be faced with legislation as dangerous as this. If they had pursued a course to put a stop to these foreign governmental borrowings, which are dictated mainly by a low-interest rate; if you put a stop to these, you would close up one of the big drains on our dollar outflow. One thing more would have helped the situation. Most of these big loans, for relatively long terms. These borrowings by foreign governments run to $20, $30, or $300 million like the Quebec loan. The administration should have gone to the institutions handling these loans. These institutions came before the committee and asked that the committee call them together so that they might work out a voluntary system of restraints on these types of loans. They could not get together on their own accord because they would be violating the antitrust law. They had to be operating under the aegis of the Federal Government. They asked our committee to ask the Treasury to call them together, so that they might voluntarily cooperate, as was done in the forties, to stop any unnecessary outflow that was damaging the dollar. Did the Treasury do it? No. The Treasury wanted control, they wanted authority. I think they want that more than they want a solution to the problem, if you do not mind my saying so.

Now, the supporters of this bill talk of how much money will be saved by the bill. Let me suggest there is no way that anybody can judge what the demands are going to be in any market on any particular day, or from what particular source. It is all speculative.

The figures that were produced by the chairman, and by the gentleman from New York, showing the relatively small amount of dollar outflow that would result from this bill as balanced against the damage that could be done, were based upon the statements of experts as to the bill as first presented to the committee. Since that time we have added all of these exemptions, so the effect now cannot be more than before.

Furthermore, the movement of capital involves many considerations, not the least of which are the needs of the borrower or issuer of the foreign security. The demand for capital will fluctuate from time to time. This makes it really impractical to point out by comparison what has been, or may be, the effect of this bill. However, if, as the chairman of the committee seeks to do, we are to make such comparisons, I would like to point out that the bill apparently has had an adverse effect.

We are really talking about investment in the securities of Western Europe and Japan. During the period from January 1 to June 30, 1963, U.S. residents purchased a total of $328 million of securities from these two sources. During the period from July 1 to December 31, 1963, U.S. residents purchased a total of only $105 million of securities from Western Europe and Japan. From this, it might be claimed that the threat of the legislation resulted in a reduction of $223 million in the securities from these two sources during the last half of 1963.

On the other hand, during the same periods, long-term foreign bank loans, which are exempt, increased from $996 million for the period from January 1 to June 30, 1963, to $1.452 billion for the period from July 1 to December 31, 1963, representing an increase in borrowings of $456 million. Thus, it should be obvious that already there has been a substitution of bank loans for other types of foreign securities. The bill accomplished nothing.

Let me say that this bill, in my judgment, should be defeated. If it is, the President can move tomorrow. I do not share the concern of my fine and pleasant friend on the committee from Michigan over the consequences. I think there would be cooperation on the part of those who are involved in these financings to avoid any great outflow of dollars.

(Mr. MATSUNAGA asked and was given permission to extend his remarks at this point in the RECORD.)

Mr. MATSUNAGA. Mr. Chairman, it is not easy for me as a Democrat to rise in opposition to an administration-sponsored bill, and I would not do so if I were not convinced that H.R. 8000 would not accomplish its intended purpose. In fact, I am of the view that this legislation will in the long run hurt our Nation's cause and especially the interests of my own State of Hawaii. I make this contention because the bill as it has come to us for consideration under a closed rule, which allows no amendments from the floor, tends to penalize our best friends, and raises the great possibility and a probability of their taking retaliatory measures against us.

I might here point out that Hawaii's Governor, John A. Burns, a former Member of this body, has also publicly voiced his opposition to the bill before us.

Hawaii stands at the threshold of a great new era in trade with the countries of Asia and the Pacific. The State of Hawaii plans an international trade center on Sand Island at the entrance to Honolulu Harbor and is already enjoying a growing tourist trade with Asia and the nations down under.

Japan is at present the most important country in Hawaii's foreign trade potential. Dr. James Shoemaker, vice president and director of research for the Bank of Hawaii and for many years a director of the Hawaii Visitors Bureau, has estimated that with the announced easing of Japanese exchange restrictions this April the Japanese tourist travel to Hawaii will reach 50,000 persons annually and that they will spend at least $20 million annually in Hawaii. Martin Pray, director of the U.S. Travel Service, Tokyo office, has estimated that this figure may double in later years.

While the residents of Hawaii have in all the years up to this time accumulated some $25 million worth of Japanese securities, the capital flow has by no means been one sided. A financial group headed by Japanese Financier Kenji Osano has within the past year purchased the Moana, Surfrider, and Princess Kaiulani Hotels, together with land for an additional hotel in Waikiki at a total price of $22.2 million. Plans which may involve the investment of $10 to $20 million more in Waikiki during 1964 are underway by this and other Japanese investment groups.

The commercial banks in Japan are conducting savings account drives for a save-now-and-go-later vacation in Hawaii, and a Hawaii promotion is taking place in Japan. Under the save-now-and-go-later plans promoted by the Japanese banks, the Japanese tourist will have $500 in U.S. dollars to spend when he arrives in Hawaii.

The passage of H.R. 8000 will likely result in the curtailment of these activities through retaliatory measures imposed by the Japanese Government and result in greater loss of the inflow of dollars from Japan than in saving the outflow of our gold to all of Asia.

It is my further contention, Mr. Chairman, that the proposed interest equalization tax is bad for the United States because it will decrease our foreign exports and increase our adverse balance of payments in the long run and that it will not significantly improve it in the short run. However, I wish first to discuss the special case of Japan.

Japan's case is essentially similar to that of Canada, which according to a speech made by Under Secretary of State George W. Ball on July 22, 1963, will be exempted from the tax because of the dependence of Canada upon capital from the United States for her development. Canada is our best customer. Japan is our second best customer. The United States has a favorable balance of trade with both nations. Japan, like Canada, is undergoing expansion in her economy and is not accumulating dollars but is using them up on a current basis. Canada is a bulwark of democracy to our north and Japan is a bulwark of democracy to our West.

Every single reason for exempting Canada from the application of this law is also a reason which applies with equal force to the case of Japan.

As has been pointed out in the recent Brookings Institution study on the balance-of-payments problem, a country which is not a dollar accumulating country is not a balance-of-payments problem. The Brookings Institution study concludes that Japan is not a factor in our balance-of-payments problem. In its section on "Japan as a Special Case," the Brookings Institution authors commented as follows:

> It appears * * * that internal forces in the Japanese economy would permit a more rapid growth than Japan has actually experienced and that the limits have been set by availability of foreign exchange. So long as internal forces are pressing against these limits, there is every reason to suppose that additional foreign exchange receipts will be spent. On the other hand, it does not appear likely that Japan would permit substantial and persistent deficits. These considerations suggest that Japanese foreign expenditures, unlike those of the industrial countries of Western Europe, will approximately equal its foreign exchange receipts. However, to the extent that it is able and willing to attract short-term funds, it can have a basic deficit despite a total net balance of zero.

As the Brookings study points out, short-term borrowings of the duration of 1 year are in reality a basic balance-of-payments deficit to the borrowing country. Japan has to a large extent depended upon 1-year borrowings from the United States to finance her foreign trade and has to that extent a basic balance-of-payments deficit with the United States. The U.S. Department of Commerce reports that as of December 31, 1963, the banks of the United States reported short-term loans for 1 year to Japan, totaling $2.137 billion. This figure does not include corporate lending to Japan.

Insofar as these obligations may fall due and are not renewed, this means that dollars must be accumulated by Japan to make up for the deficit. How can this be done? I suggest that it can only be done by cutting down on purchases of American goods for dollars.

It is a fact that trade must, in the long run, be a two-way street. If we apply the sanctions of H.R. 8000 against the nations which are our best customers, then sooner or later those nations must decrease their purchases from the United States. The barriers thrown up against the outflow of gold might, in the cases of our best customers, succeed more in keeping the gold from flowing in than out. This would be like "locking the horse out of the stable." It would appear sensible to me to provide in the bill that securities of foreign countries with whom we enjoy a favorable balance of trade be exempted from the proposed tax.

Mr. Chairman, our actions in Congress in voting upon this bill will have more adverse effects upon Japan than upon any other country in the world. The Dow-Jones average on the Tokyo Stock Exchange dropped from 1,800 to 1,200 when the intent of the administration to seek enactment of the interest equalization law was announced last July 18, and it has never significantly recovered. While overpricing of stocks may have been a factor in this decline, there is no doubt that the administration's announcement was the factor which triggered the crash and that it remains a major depressant of the market today. Some 10,000 holders of Japanese securities in Hawaii have found their assets severely reduced in value.

Dr. Emile Despres, a coauthor of the Brookings study, made the following statement before the Joint Economic Committee of Congress on July 29, 1963, with regard to the probable effects of this bill:

> It probably won't help our balance of payments, and indeed it may have the opposite effect because Japan and Canada are countries that have operated on rather modest reserves relying upon the United States, being financially dependent upon us in a sense to tide them over balance-of-payments difficulties.
>
> To the extent that it causes them to feel that this is no longer available to them as readily, it may cause to them to adopt economic policies which will result in the holding of larger reserves, probably at the expense of the U.S. reserves.

In other words, the adjustments which these countries will need to make to meet the lessening of accessiblity of our capital markets are likely not merely to compensate but to overcompensate, and the balance-of-payments advantage as applied to countries like Japan is likely to be nil or even negative.

Since Japan has never accumulated dollars, and since it has such a large short-term dollar debt both in the United States and in Europe, an air of uncertainty hangs over the Japanese industrial economy, which is midway into a tremendous expansion program which must be financed in part by U.S. dollars, and which depends upon the continued importation of such commodities, as coal, iron, machinery, and plant equipment from the United States, for which dollars must be paid.

The expansion of Japanese industry simply cannot be chopped off midway. If, for example, a company is engaged in a 4-year program to build a manufacturing plant with 3 years of construction completed, the different between a little more or a little less capital can spell the difference between success and failure.

A story in the New York Times of March 2, 1964, indicated that Japan is scouring Europe for investment capital and has succeeded in borrowing about half of the $300 to $500 million that it needs this year. The remainder will have to be borrowed in New York; the Japanese will have to pay the tax if H.R. 8000 becomes law, but the dollar outflow will not have been stemmed.

If H.R. 8000 were going to be passed at all, Japan should be excepted from its application since no advantage to the United States can possibly accrue from such application. H.R. 8000 should be recommitted to committee for such an amendment.

Aside from the special case of Japan, however, I am convinced that this bill simply will not accomplish its intended purpose. The administration and Congress have undertaken a number of measures already, such as reduction of military expenditures abroad, promotion of export trade, tax reduction, the making of 80 percent of all foreign aid expenditures in the United States, a "See America First" campaign, and other measures.

These additional measures and others which may yet be considered may have a favorable influence in reducing our balance of payments problem, but I predict that the net effect of H.R. 8000 will be negative to the extent that it will reduce our volume of exports.

I am inclined to agree with Mr. Andrew N. Overby, chairman, Committee on Foreign Investment of the Investment Bankers Association of America, who pointed out in his testimony before the House Committee on Ways and Means that only in the case of decreased sales of new European issues could the interest equalization bill favorably affect the balance-of-payments deficit and that the best that can be expected would be a slight temporary reduction in the deficit.

Economists are generally agreed that our long-term balance-of-payments position and outlook is strong. Would it not be better to deal with our present problem by improving our international competitive position? What we need to do is to encourage increased foreign investments in the United States, further reduce our nonasset-creating expenditures abroad, and if necessary even make temporary drawings on the International Monetary Fund or our reserves, rather than restrict the free flow of funds or jeopardize our position as the world's banker and trustee of the key currency of the world, for, as Mr. Overby and others have emphasized, once confidence in the United States and in the freedom of our capital market is impaired, it will be a monumental task to rebuild it.

Before we venture into the doubtful and face the dangerous possibilities that this law may backfire, we should consider all possible alternatives, including the one suggested in the February 19, 1964, editorial in the New York Times entitled "Halting the Dollar Drain." It was there suggested that we would do well to consider tax incentives for exports.

I ask that this bill be defeated. There are far too many inherent dangers in it.

Mr. MILLS. Mr. Chairman, I ask unanimous consent that all Members desiring to do so be permitted to extend their remarks at this point in the RECORD on the pending bill.

The CHAIRMAN. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. SMITH of Iowa. Mr. Chairman, we are asked by the Treasury Department to take action today on H.R. 8000 in order to reduce the balance-of-payments deficit. At the same time, another Department has taken action that will increase that deficit.

On February 13, the Secretary of Commerce clamped a quota on the export of walnut logs and limited those exports to about 40 percent of the amount exported last year.

Up until the past 2 years, walnut logs have been so cheap that farmers would not bother to plant them in woodlots and would let them stand until they were rotten or ruined for veneer purposes. When the Italian, German, and Japanese economies improved, they started buying furniture and wanted walnut. That lifted the price until farmers in the United States started selling and replanting. Reducing the market will surely result in a return to those cheap prices of 2 years ago and discouraging the cutting of ripe trees.

Agriculture bills in the past few years have been designed to encourage shifting cropland to the production of timber. We can produce all the walnut logs that are needed anywhere and should expand production rather than reducing exports.

Everyone's attention seems to be directed at reducing the balance-of-payments deficit by increasing exports, but this action reducing walnut log exports was exactly to the contrary.

Attention is also being directed to depressed areas in the Appalachin region. They are among the areas that can produce walnut logs. This order takes away part of their opportunity to earn a better income. Although most walnut logs are grown in Missouri, Iowa, Illinois, Kentucky, Kansas, and Indiana, they are also grown extensively in parts of South Dakota, Nebraska, Oklahoma, Texas, Louisiana, Arkansas, Alabama, Tennessee, Georgia, South Carolina, North Carolina, Virginia, West Virginia, Mississippi, Pennsylvania, Maryland, Massachusetts, Connecticut, Michigan, Wisconsin, Delaware, and New York.

To justify the order, the Department press release said it requires "80 to 100 years' growth for veneer production." That simply is not true and our own Government publications from the Department of Forestry so state. A publication on black walnut by the Department states that it takes 42 years to grow a tree 66 feet tall and 12.3 inches in diameter. In fact, we grow them in Iowa in 30 years. Veneer exporters buy trees 12 inches or more in diameter and we should be selling these trees as they ripen.

This order is no way directed at protecting growing timber which is not ready for harvest. I would not object to an order prohibiting exporting logs under 12 inches in diameter if that were necessary; but this order, in fact, prohibits the export of timber that should have been harvested years ago and will decay if it is not harvested.

To further justify the order, the Department of Commerce vastly underestimated the supply of walnut timber. In fact, they accepted the estimates of the domestic walnut veneer lobby. They estimated that only 18 percent of the total volume of saw timber is veneer quality and that only 10 percent is raised outside the Midwest. They also used the Doyle scale to estimate board feet and it admittedly underestimates the veneer material in a log. They cannot secure any competent evidence to support those figures.

Plastics and substitutes are being developed. Other types of wood will also be substituted. Unless reversed, this order will undoubtedly result in a permanent loss of part of an export market. It freezes our goal for production at a lower level than necessary.

This order limiting exports is thoroughly unjustified and I feel sure Secretary Hodges based it upon erroneous information. I hope he will reexamine it and note that it is contrary to every export policy and production policy we have embarked upon during the past several years. It is also contrary to the policy of Congress expressed in the Export Control Act itself where it requires that controls be applied "in cooperation with all nations with which the United States has defense treaty commitments." The nations affected by this have treaty commitments with us and vigorously object as do our producers of walnut logs.

Prior to this export outlet, there had been some unusual methods successfully used to keep the price of walnut logs low and the price of veneer high. This should be thoroughly examined and not tolerated any longer.

Action is needed to reverse the order of February 13 and I urge all Members from walnut producing States and all who want to reduce the balance-of-payments deficit to not only vote for this bill but also fight for a reversal of that order limiting the export of walnut logs.

Mr. LIBONATI. Mr. Chairman, the purpose of H.R. 8000 is to levy a tax upon an American investor or purchaser of a foreign stock or bond, only if his or her purchases are made from a foreigner. The tax will reduce the outflow into these securities in a projected determination—first half of 1963—of from $1¼ million to $1½ million; during the last 6 months of 1963 a savings of $1.8 million.

The tax was proposed because of the critical results suffered in the purchases by Americans in the first half of 1963 of nearly $2 billion—practically doubling the rate of 1962 and tripling the rate of investment in 1961. Thus our international payments became a critical problem in an endeavor to balance our international payments and was a determining factor in the payment deficit of $5 billion at the annual rate in the second quarter of 1963—a rate which could not be sustained. A limitation date of December 31, 1965, considered a sufficient time interval for the accomplishment of its purposes—the improved opportunities for investment in the United States and perhaps also foreign—and further the accomplishing of the goal of $1 billion in Government expenditures overseas.

The tax rate on foreign bonds is 15 percent, while the rate is graduated from 2.75 to 15 percent on foreign bonds depending upon the time of maturity. The rate of the tax raises the cost of foreign borrowing in the United States by about 1 percent per year. There is no tax if the foreign security is purchased by another American. The brokerage agencies function in this capacity. The American holder of foreign stock can sell it in the market designated for such sale and escape the 15 percent charge on the value of his or her stock. If a purchase is made from a foreigner he is subject to the tax. One liable for the tax must file a quarterly interest—failure to do so results in a fine of $1,000 as well as a criminal penalty for a wilful failure to file—similar to violation imposed in the case of tax returns.

The following questions and answers are in conformity with the prescriptions of the bill:

Question. Can an American escape the tax by purchasing foreign securities outside the country?

Answer. No. The liability for tax is incurred whether the purchase from a foreigner is made within or outside the United States. Enforcement of this requirement will be comparable to enforcement of income tax provisions applicable to Americans living abroad.

Question. Must information returns be filed by brokers?

Answer. Brokers will be required to report purchases by them on behalf of customers who are liable for the tax.

Question. Are brokers required to withhold the tax on the purchase of foreign securities?

Answer. No. The American purchaser must file a return and pay the tax.

Question. How does the seller establish that he is an American?

Answer. Certificate of American ownership forms have been supplied on which sellers certify that they are Americans, and purchasers from them are not subject to the tax. These forms must be filed with the seller's broker, and a single form can suffice for an entire brokerage account.

Question. Does the bill provide penalties for executing false certificates of American ownership?

Answer. The willful filing of false certificates of American ownership is punishable by a fine of not more than $1,000, imprisonment for not more than 1 year, or both.

Question. What is the effective date of the tax?

Answer. The tax applies to purchases of foreign securities made on or after July 19, 1963. This effective date is necessary to avoid an acceleration of foreign borrowings during the period in which Congress is considering the proposal, which might cause irreparable damage to our balance of payments in the short term. In the case of purchase made on stock exchanges, August 17, 1963, is the effective date.

Question. Why does the bill apply to outstanding as well as new issues?

Answer. Inclusion of outstanding issues within the bill's coverage will achieve balance-of-payments savings of as much as $500 million annually and prevent substitution of untaxed outstanding securities for taxed new issues. If the tax did not apply to both new and outstanding securities, it would be a relatively simple matter for foreigners to sell issues which they now hold on a tax-free basis to Americans and use the proceeds to invest in new issues.

Question. Why does the tax apply to both stocks and bonds?

Answer. Stocks are an alternate means of raising capital for private foreign borrowers and failure to include them might cost $500 to $600 million annually in outflows.

Question. Does the tax apply to the purchase of all foreign debt obligations, regardless of maturity?

Answer. The tax does not apply to purchases of obligations with less than 3 years remaining to maturity. These short-term obligations play an important role in financing U.S. exports.

Question. Will the tax have a restrictive effect on U.S. exports?

Answer. The bill has been carefully drawn so as not to interfere with export financing, since an increase in exports is one of the best ways of reducing the deficit in the U.S. balance of payments.

Question. Does the tax apply to direct investments made by U.S. firms in foreign corporations?

Answer. No tax is due if the American firm owns 10 percent or more of the stock, or the purchase brings ownership to 10 percent or more, of the foreign corporation since direct investment of this type implies active participation in the management of the foreign corporation and is not concerned with interest-rate differentials.

Question. How does the bill affect bank loans?

Answer. Commercial bank loans are excluded from tax if made by a bank in the ordinary course of its commercial banking business. This exclusion recognizes the important role of commercial banks in financing U.S. exports and the international business of American firms.

Question. What is being done to prevent use of the bank exclusion to avoid the tax on otherwise taxable borrowings?

Answer. Because of the possibility of abuse of the bank exclusion, the bill authorizes the collection of data on foreign bank lending to provide a basis for determining whether this exclusion should be continued and, if not, the way in which it should be modified.

Question. Does the tax apply to purchases of securities of less developed countries?

Answer. No. The bill excludes from tax purchases of governmental securities of less developed countries as well as securities of companies doing the bulk of their business in less developed countries.

Question. Does the tax apply to new issues of all developed countries?

Answer. The bill provides that the President has authority to exempt new issues of a foreign country where he determines that application of the tax to the securities of that country imperils or threatens to imperil the stability of the international monetary system. In such a case, the United States would want to avoid disruption of the international payments system since this could bring serious damage to our own economy as well as to other countries. Such action would be in accordance with the treaty obligation of the United States to the International Monetary Fund to help promote exchange stability.

Question. Is it expected that this authority will be exercised?

Answer. It is anticipated that new Canadian issues will be exempted from tax. This does not mean, however, that the U.S. balance-of-payments gains we sought will be sacrificed since the Canadians have undertaken not to borrow in the U.S. market amounts that would increase their international reserves. The exemption can be revoked or limited if Canadian borrowings exceed amounts required to maintain their international reserves and reach the abnormally high levels of 1962 and early 1963.

Question. Does the tax apply to foreign companies controlled by Americans?

Answer. The bill excludes from tax foreign corporations traded on U.S. stock exchanges if the principal market is in the United States and more than 50 percent of the stock is owned by Americans.

Question. What is the expected revenue from the tax?

Answer. It is estimated that this bill will result in an annual revenue gain of up to $30 million in a full year of operation.

The passage of this legislation will contribute to the protection of our economy in that the reduction of investments (bonds and stocks) abroad will serve to prevent the depletion of our gold reserves and reduce the outflow of our monetary deficits as a result of heavy foreign investments.

Mr. PHILBIN. Mr. Chairman, I have listened to the debate and have carefully studied the provisions of the bill.

It is clear that the primary objective of the bill is to narrow the dollar gap which, in all its implications, is so meaningful and threatening to our economy, to the integrity of the dollar, and to foreign exchange.

I have addressed the House on several occasions about this subject and I have felt for a long while that urgent measures should be taken, not only to narrow but to eliminate the dollar gap at the earliest possible date.

While I recognize that some constructive valuable efforts have been made which are now bearing fruit to some extent, there are many of us who will not feel at ease about this matter until the dollar gap has been completely eliminated.

While this bill moves in this direction even though the estimated gains are only somewhat over a billion dollars a year—not a huge sum, to be sure, and not enough to bring about the desired balance—I have some misgivings about certain provisions of the bill.

I stated before and now reiterate that I believe we must move to other more substantial items that are responsible for the dollar gap before we can secure real remedy and correction of this dislocation which gives rise to so much deep concern.

For example, as I have suggested before, if we would revise our trade policies and promote exports, bringing about a better balance between imports and exports, and stop the steady flow of cheap goods coming into this country, which is having such a bad effect upon our economy, these would be an extremely powerful force in reducing the dollar gap.

If, in addition, we would streamline our foreign aid program and bring it into line more realistically with the principles of economy, efficiency, accountability, and orderly procedure, and eliminate the waste and extravagance that now unfortunately attend a large part of these activities, these also would undoubtedly bring about the result we so urgently need of eliminating the dollar gap within the foreseeable future.

I have some concern also about the time limit that has been fixed in this bill and the fact that it restricts and impedes the flow of capital.

Nevertheless, since I am so anxious to do something now to reduce the dollar gap, I am willing to go along with this measure with the hope that it may have some good effects in helping to protect the integrity of the dollar and that it is a step forward toward closing this dangerous gap entirely, once and for all.

I urge that the Ways and Means Committee consider amendments to the trade bill and that the Foreign Affairs Committee and the appropriate committees initiate action to review and revise the foreign aid bill in such ways as to narrow and ultimately close the dollar gap that is hanging like the sword of Damocles over our economy, the integrity of the dollar, and international exchange.

Mr. LINDSAY. Mr. Chairman, I rise in strong opposition to this bill. This bill throws out the baby along with the bath water. As correctly stated by the dissenting minority members of the Ways and Means Committee, "It is isolationism on the part of a nation which has undertaken as a major objective the promotion of free trade."

Even a recitation of the text itself should give pause. It is a governmental blunderbuss which, under the cloak of assisting the balance of payments problem, will be counterproductive and will hurt our country in world markets. The bill imposes a tax of 15 percent of the actual value of stock at the time of transfer where that stock is acquired by a U.S. person from a foreign obligor, or from any foreigner for that matter, if the stock is of a foreign issuer. That is a rough tax, and it will have a rough result on U.S. expansion and investment abroad. The tax on the transfer on debt obligations varies from 15 percent on obligations with a maturity of 28½ years or more down to 2.75 percent for those with a maturity of 3 to 3½ years.

I do not even think this is an honest bill, because it excludes debt obligations received by commercial banks in the course of their business. And it also excludes Canadian securities. Again, as pointed out by the minority, since most lending abroad, and for the most part foreign bonds, are purchased by institutional investors such as banks, insurance companies, and the like, the net effect is to permit the bank to lend money abroad tax free, but to deny to the other institutional investors the same right.

I believe that this bill will adversely affect balance of payments in the long run by restricting U.S. investment abroad. I am surprised that this administration would press it, and I am surprised that the majority side of the Ways and Means Committee would be "good soldiers" to this extent. The fact is that the only real gain that our country has shown in the balance of payments problem is reflected in the growth of private investment income. This income has increased from $2.9 billion for 1960 to $4 billion for 1963. Exports can and should be increased. But this bill will not improve U.S. exports.

Of course, the final result of this bill will be to drive the money market away from the United States, away from New York, and away from Americans. Even conceding that it may have a temporary beneficial impact on the balance of payments problem, this will slowly but surely reverse itself.

It seems to me clear that this bill demonstrates what we often hear: That the administration in Washington has no conception whatever of the role of the free enterprise system in the never-ending struggle for a better life for all people.

One might ask, what is the alternative? The alternative has been suggested by many, but the suggestion fell on deaf ears in the administration and in the majority side of the Ways and Means Committee. That suggestion is simply that there be a capital issues committee formed, which is the practice in many other booming countries, and that that committee make isolated decisions about proposed borrowings that adversely affect the United States. The rejection of this proposal by our Government was an error of enormous significance.

In closing, I should like to point out that among others, one of the most distinguished New York bankers in the investment field, Mr. Harold L. Bache, directing partner of Bache & Co., in his testimony before the Ways and Means Committee, made this constructive suggestion.

He said:

It is our belief that in lieu of the tax and administrative action proposed by H.R. 8000 that the immediate implementation by the Treasury of the President's foregoing suggestion can achieve more prompt, effective and desirable results. The formation of a committee or committees of investment bankers; commercial banks and trust companies; investment, charitable, and pension fund trustees, and corporate financial officers to be brought promptly into liaison with our monetary authorities can accomplish almost at once the substantial elimination of all unnecessary and self-seeking drains upon our balance of payments.

Is it not better to initiate voluntary action and to apply moral suasion to the fundamentals of our problem than to impose laws and taxes that are no more than rearguard action at a time of impending crisis?

Mr. Bache spoke for many when he offered this suggestion, and I regret that it was not accepted.

Mr. Chairman, I hope that this bill is defeated.

Mr. REUSS. Mr. Chairman, I wish to express my strong support for the interest equalization tax. This tax is intended to discourage the governments and large industrial corporations of advanced industrial countries from borrowing capital funds in this country. By so doing, it will reduce a major source of the balance-of-payments deficit which we have not yet succeeded in eliminating.

Before 1962, the volume of new foreign securities issues in the U.S. capital market stayed in the range of $500 million to $600 million per year. In 1962, new foreign issues climbed to over $1 billion. In the first two quarters of 1963, before the request by President Kennedy of the tax we are now considering, new foreign issues rose to an annual rate of nearly $2 billion. This raid on our capital market was responsible for an increase in our overall balance-of-payments deficit on regular transactions from $3 billion in 1961 to $3.6 billion in 1962 and to the alarming rate of $5 billion in the second quarter of 1963.

The fact that the interest equalization tax has been under consideration by Congress reduced capital outflow due to new foreign securities issues to an annual rate of less than $450 million in the fourth quarter of 1963. This smaller outflow, in turn, helped to reduce our overall payments deficit on regular transactions during the fourth quarter to an annual rate of about $1.5 billion.

The interest equalization tax proposal has had not only the advantage of curtailing capital outflow and reducing the U.S. payments deficit. It has also had the highly desirable effect of encouraging European countries to open up their sheltered capital markets. During the past year, new foreign issues placed in London alone have totaled nearly $100 million. Belgium raised $20 million; Italy, $15 million; the city of Copenhagen, $15 million; Canon Camera Co., of Japan, $5 million; Takeda Chemical Industries of Japan, $15 million; Norway, $10 million; and Austria, $18 million. Many of these new issues would undoubtedly have been placed with underwriters in New York had it not been for the pending interest equalization tax proposal.

In view of our continuing serious balance-of-payments problems, it is hard to find a good reason against this proposal.

The countries of Western Europe, Japan, and others, to which this tax will apply have ample capital resources of their own. These are the wealthiest countries in the free world. As a group, they have monetary reserves in excess of our own. They have no problems of persistent payments deficit—in fact, many have had persistent payments surpluses. Without exception, they still limit or place obstacles to foreign borrowing in their own markets. What sense is there in keeping our Wall Street capital market wide open to such countries when we can do so only at the cost of increasing our own balance-of-payments deficit and by reducing our gold reserves?

Reputable European financial leaders have been puzzled at our failure to limit this source of payments drain in the United States. Dr. Max Ikle, managing director of the Swiss National Bank, said in an October 20, 1962, speech:

The Swiss monetary authorities have repeatedly pointed out to their American colleagues that, although this willingness to supply the world with capital is very generous and deserves gratitude, such generosity is hard to understand if capital exports endanger the U.S. balance of payments and its currency. From our point of view, we should prefer equilibrium in the balance of payments and reduced capital exports, because we feel it to be important for confidence in the dollar to be restored as soon as possible.

A July 1963 article in the London Financial Times pointed out:

One of the silliest aspects of the international financial scene at the moment is that the continental countries, with far larger external reserves than they know what to do with, are regularly going to the New York capital market for funds to finance their development activities.

They are thereby adding to the stress on the U.S. balance of payments to such an extent that they are having to be asked to put normal dollar convertible arrangements in indefinite suspense, this so that the United States can borrow from them on short term the funds it needs to sustain its long-term capital exports to them.

Mr. Robert Marjolin, vice president of the Common Market Executive Commission, said in New York yesterday that, in the interest of maintaining payments balance between the Common Market and the United States, he hoped the United States would take measures to check its capital outflow.

The Joint Economic Committee's Subcommittee on International Exchange and Payments, of which I have the honor to be chairman, considered this problem during its studies 2 years ago. The subcommittee agreed unanimously, in its December 1962, report, that limiting access to the U.S. capital market should be first on the list of stronger measures this country should take if balance-of-payments problems persisted. The Treasury and the Ways and Means Committee deserve praise for working out the proposal on which we vote today. I urge all Members to support this obvious and sensible way to reduce our continuing balance-of-payments deficits.

Mr. MILLS. Mr. Chairman, I yield 10 minutes to the gentlewoman from Michigan [Mrs. GRIFFITHS], to close debate.

Mrs. GRIFFITHS. Mr. Chairman, as a member of the Committee on Ways and Means and also a member of the Joint Economic Committee, this question of the balance of payments has concerned me greatly.

The proposed interest equalization tax now before us is one part of a comprehensive program designed to achieve lasting balance in our international accounts. The tax can only be evaluated adequately within the overall context of the entire program and by comparing it with alternative ways of achieving a equivalent reduction in the outflow of U.S. portfolio capital.

Because the balance-of-payments problem is so difficult and complex, it has been recognized from the first that reliance could not safely be placed upon any single measure. Instead it has been necessary to persevere with a coordinated attack designed to achieve savings in all major areas of our balance of payments.

Heavy emphasis has been placed upon fiscal measures such as the 7-percent tax credit for domestic investment in machinery and equipment, the administrative liberalization of depreciation, and this year's individual and corporate income tax reduction. These measures will exert a powerful, but gradual, improvement in our international competitive position through the incentives they provide for a more rapid rate of domestic investment and technological advance. They also have a directly beneficial effect upon our balance of payments by the encouragement they give to foreign investment here—and to the domestic employment of funds rather than their export abroad in the form of portfolio or direct investment.

In order to achieve this permanent strengthening of our international competitive position, it has also been recognized that costs and prices must be held in check at home. Cost-price stability not only facilitates the expansion of our exports—it also insures that the normal increase in imports caused by rising levels of domestic activity will not be aggravated by a general lack of competitiveness. Our wholesale price index has remained virtually stable for the past 6 years, in contrast to rising prices in most other countries. However, competition remains keen in important world markets. Any tendency for our own costs or prices to rise relative to those of our major foreign competitors would prevent the early attainment of balance that we must achieve.

Thus, domestic expansion at stable prices provides the longrun basis for balance-of-payments equilibrium. However, the need for early and substantial reduction of our deficit has been so urgent that we could not safely await the operation of longrun correctives. Instead, it has been essential to proceed with a broad array of other measures to improve specific sectors of the balance of payments. For example, tax reduction and cost-price stability have been supplemented by direct steps to foster exports—creation of broad facilities for export credit insurance and financing, negotiation of tariff reductions, development of new markets abroad, encouragement of U.S. businessmen to export, and efforts to remove ocean freight rate discrimination against U.S. exports.

The full effect of these measures has not yet been registered, but our merchandise exports did increase by more than 6 percent during 1963 to a record level of almost $22 billion.

Government expenditures abroad have been cut substantially. By the end of this year we will have made a $1 billion reduction in our 1962 rate of oversea Government expenditures. Net military expenditures have already dropped significantly and additional declines are scheduled. Acquisition of strategic materials from abroad is being held to the minimum consistent with national security requirements. The dollar cost of foreign aid programs has been steadily reduced by tying an increasingly large proportion of aid to purchases of U.S. goods and services.

In the area of capital transactions, our efforts until mid-1963 were concentrated in two broad areas:

First, monetary and debt management policies were coordinated to avoid placing undue downward pressure upon U.S. short-term interest rates. This policy was pressed one stage further, in mid-1963, when our discount rate was raised by one-half of 1 percent. The needed alinement of our short-term rates with foreign short-term rates was accomplished without affecting the ready availability of credit for domestic purposes. For example, long-term mortgage rates, so important for residential construction, actually declined last year and are as low as in any year since 1958.

Second, through the willing cooperation of foreign countries, special transactions were undertaken to provide additional time for longer run measures to bring our accounts into balance. These special transactions included debt prepayments by foreign countries, advance payments on our military exports, and the issuance—beginning late in 1962—of special nonmarketable medium-term Government securities to foreign monetary authorities.

Thus action had been taken on a broad front. Prior to mid-1963, however, no direct steps were taken to reduce the outflow of private long-term portfolio capital. U.S. officials had urged the desirability of a more rapid development of the extremely narrow and relatively inefficient European capital market facilities in view of the very great strain that could result from the concentration upon the New York market of the rapidly growing foreign demands for capital. However, there was an understandable reluctance upon the part of the U.S. Government to interfere, no matter how selectively, with the free operation of the long-term capital market. But by July of last year, there was no alternative but to act and to achieve some temporary moderation of the swelling volume of foreign long-term borrowing in New York.

Purchases by Americans of new foreign security issues doubled between 1961 and 1962, rising from about $550 million in 1961 to more than $1 billion in 1962. In the short space of the first 6 months of 1963, net purchases rose again to just over $1 billion. This annual rate of about $2 billion more than tripled the sizable 1961 rate of purchases.

In the face of so torrential an outflow, there was no prudent alternative to direct action. Already the steady improvement achieved in all other major sectors of the balance of payments had been undercut, and as a result the second quarter balance of payments deficit on regular transactions reached an annual rate in excess of $5 billion. Even more ominously, there were no signs that any spontaneous reduction of foreign long-term borrowing was in prospect. To the contrary, there was detailed and unmistakable evidence that the demands of borrowers from other industralized countries were sure to accelerate even further. That acceleration could not be allowed to proceed unchecked, since the continuation of very large balance-of-payments deficits soon would have threatened to imperil the position of the dollar and the stability of the entire international financial system.

In this situation, the late President Kennedy presented his special message on the balance of payments on July 18, 1963, including the proposed interest-equalization tax as one part of the special action program. The dramatic improvement in our balance of payments during the second half of 1963 testifies to the success of that action program as well as to the cumulative effects of the policies undertaken in previous years.

The deficit on regular transactions which averaged $4.5 billion during the first half of 1963 was reduced to less than $1.6 billion during the last half. The deficit for the full year of $3 billion was down only about $600 million from 1962 but the substantial progress in the last half of the year was very encouraging. The influence of the proposed interest equalization tax is unmistakably revealed in the statistics on long-term capital movements. Between the first and second halves of the year there was a net improvement on an annual rate basis estimated at almost $1.3 billion in new security issues and a further improvement of about one-half billion from trading in outstanding securities.

There is no question, therefore, that action was imperative—and that the interest equalization tax has been extremely effective. The only remaining question is, How does the interest equalization tax compare with alternative measures capable of sharply reducing the outflow of U.S. long-term portfolio capital from mid-1963 levels? The scale which those outflows had reached and the potential they had for further enlargement made the need for some action self-evident. There was, and is, no case for inaction.

Nor it does not meet the issue to refer somewhat vaguely to cuts in balance-of-payments expenditures in other categories as a solution. Savings were, and are, being made in every other balance-of-payments category, especially and particularly in those expenditures directly under Government control. But no extra cuts in those expenditures were practical on a scale that could have made room for the swelling demands of foreign borrowers and at the same time achieved a net reduction in our balance-of-payments deficit. Indeed, the accelerating scale of portfolio outflows in early 1963 threatened very quickly to overwhelm all of our efforts in other directions.

It is true that the needed reduction in American purchase of foreign securities might have been achieved in other ways. I would like to consider briefly the three chief alternatives to the interest equalization tax and compare them with the course of action proposed in H.R. 8000. These are:

First. A general increase in U.S. long-term interest rates.

Second. The use of a Capital Issues Committee to allocate available funds to foreign borrowers.

Third. The direct prohibition of certain U.S. investments abroad.

One solution to an excessive export of long-term capital would have been a general tightening of credit and an increase in long-term interest rates. The increase in long-term financing costs that resulted would divert some foreign borrowers to other capital markets. Higher interest rates domestically would attract a larger volume of funds, some of which would be drawn from abroad. The balance of payments would benefit both from the reduced outflow to foreign borrowers and the increased inflow from foreign lenders. The external effects of higher long-term interest rates would therefore have been entirely appropriate for our situation—if external effects were all that mattered. Indeed, the proposed interest equalization tax is simply a way of achieving these balance-of-payments effects without also experiencing the internal effects upon the domestic business situation that a general increase in long-term interest rates would cause.

The necessarily restrictive impact upon the domestic economy of tighter credit and higher long-term interest rates would have come at a time when unemployment was excessive and industrial capacity was underutilized. The harmful effects of sharply restrictive monetary policy in such a situation are too obvious to need any extensive elaboration. Even if the costs of enforced deflation could be borne, no lasting benefit to the balance of payments could be expected. A depressed economy does not achieve rapid strides in productivity or provide strong incentives for the domestic use of savings, both of which are essential for improvement in our balance of payments. The internal cost of higher long-term interest rates would have been heavy and the weakening of the domestic economy would have carried us away from, rather than nearer to, our goal of balance-of-payments equilibrium.

An additional factor working against any attempt to increase long-term interest rates is the very abundance of U.S. savings. In order to have forced long-term interest rates sharply higher at a time when long-term funds were in ample supply, it would have been necessary to contract the money supply in a drastic way. This could very easily have led to such unsettling effects upon business and investor confidence as to have canceled any temporary balance-of-payments benefit accruing from higher long-term interest rates.

The second alternative to the interest equalization tax would have abandoned reliance upon the market mechanism and would have substituted administrative determination—by some form of Capital Issues Committee—of the particular foreign securities that could be sold in our markets.

The administrative difficulties that lurk beneath the surface of such a proposal are ominous. No serious attempt could be made by the Capital Issues Committee to regulate or otherwise supervise trading in outstanding securities since the surveillance of thousands of individual transactions would be required. Consequently, it would be necessary as a matter of practical administration to exempt trading in outstanding securities from the need for administrative approval. This move would have deprived us of the benefit of a $500 million annual saving. Efforts by the Capital Issues Committee to limit American purchases of new foreign security issues would be seriously compromised by the existence of unimpeded trading in outstanding securities. It would mean that new issues would have to be almost entirely prohibited to achieve the same payments benefits that are in sight from the equalization tax.

A voluntary form of Capital Issues Committee would not work. Inevitably there would arise strong incentives for individual enterprises to interpret any voluntary guidelines established by the Capital Issues Committee in the light of their impact upon their own position relative to that of competitors. Pressures upon the entire system would soon become intolerably great where it was suspected, or known, that some firms were not conforming closely to the intent of the program. This would inevitably mean that, to be effective, a Capital Issues Committee would have to be Government operated—as it, in fact, is wherever this system is used abroad. It would have been both unnecessary and unwise to give this sort of arbitrary power to Government officials.

A third, and highly undesirable, alternative would then become virtually unavoidable. Direct Government controls over long-term foreign investment—including the outright prohibition of certain types of transactions—might then appear the only available course of effective action. The very great undesirability of such a development is certainly evident. It would have carried us the full distance from dependence upon the operation of impersonal, objective market mechanisms. It would unmistakably mean an instrusion of Government into the processes of individual decisionmaking that this country has not been willing to tolerate during peacetime.

The overwhelming advantage of the interest-equalization tax, to my mind, is twofold. First, it will during an interim period hold the outflow of long-term portfolio capital to amounts consistent with the early removal of our balance-of-payments deficit. Second, in contrast to the available alternatives, it will neither increase domestic borrowing costs nor depart from the tested principle of maximum reliance upon the market mechanism.

I should like to say to my colleagues on the left side of the aisle that I also am one of those who when this bill was originally presented to the Congress of the United States was in opposition to it. I also realize that the return on invested capital abroad has been one of the factors in cutting down on our balance-of-payments deficit. But after all this is said, I am sure that all of us agree that it is absolutely essential as a Nation that we do something to stop the outflow of gold.

You will recall, I am sure, Mr. Chairman, when President Eisenhower suggested that the wives and children of Army officers and enlisted men not be permitted to join them in their foreign posts of duty. This was an attempt to stanch the outflow of gold. This was an attempt to help turn the balance of payments in our own favor. But the effect was not a good effect. It posed obvious difficulties for the families and it really did not do much to decrease the drain on our gold.

I disagree heartily that a quota system would be better than this tax. Even with this tax our money market still remains the freest money market in the world. But our market would not remain free with a quota system. This tax is merely an attempt to try to equalize the interest paid here for foreign borrowings with the interest that one would pay in a foreign country. It does not interfer with the normal market mechanism.

Of course there are other things we could do. We could stop tourists from going abroad. We could limit the amount of money that they could spend in the same manner as other countries have stopped their tourists coming here from bringing more than a certain amount of money. These are all within our power. But is this really the way we want to handle this problem?

All we are now asking is that the people who borrow money in our markets pay something close to the amount of interest that they are paying in their own markets. It has been said, and well said, that the net effect of our efficient low-interest market has been to enable foreign businesses to come to our markets and to permit foreign governments to build all types of governmental enterprises with funds obtained here at these low-interest rates.

I would like to say that when the bill was originally presented, I looked askance—but I was born in Missouri, Mr. Chairman, and when I looked at the actual figures involved I realized that something must be done. In the period 1960–63 we increased our commercial balance and decreased our net military outlays made from offshore funds. We should have been $2 billion better off in our balance of payments because of these changes.

But what happened? In 1963, in the second quarter, the deficit increased to an annual rate of nearly $5 billion. This increased deficit was due largely to increased capital outflows.

When the President made this proposal, and I repeat once again, it shocked me. But when this proposal was made the balance-of-payments deficit was reduced from an annual rate of $4.5 billion in the first half of 1963 to an annual rate of $1.6 billion in the second half of

1963. Of this improvement, $1.8 billion was attributable to a decrease in capital outflow.

To me, the proof of the pudding is in the eating.

Mr. GROSS. Mr. Chairman, will the gentlewoman yield?

Mrs. GRIFFITHS. I yield to the gentleman.

Mr. GROSS. Does the gentlewoman attribute that in substantial part to the loaning of private money?

Mrs. GRIFFITHS. Yes; I do.

Mr. GROSS. Or is this the total picture?

Mrs. GRIFFITHS. Yes; I do attribute this in substantial part, sir, to the loaning of private money—the figures show it.

Mr. GROSS. What was the gentlewoman's attitude the other day on the International Development Act?

Mrs. GRIFFITHS. I would like to say to the gentleman—I did not say anything about it—but I was vastly shocked. It was the first time I have ever heard of America being able to send a dollar abroad where we paid, I believe, 42 cents and other countries paid 58 cents; and where it would not have really been under the Secretary of State but under a banker like Eugene Black or some other person. When I saw my conservative friends vote against it, it practically curdled my blood.

Mr. GROSS. In relation to this bill, this is non-interest-bearing money. No matter how many cents on the dollar you are trying to reduce it, this is not interest-bearing money. You do not even get anything back on the principal. Does this not fly in the face of what you are suggesting today?

Mrs. GRIFFITHS. We are today talking about private loans.

Mr. GROSS. Yes, but under the International Development Act you are sending money—sending dollars abroad for which you get nothing in return for 10 years.

Mrs. GRIFFITHS. I was in hopes though in that particular in the International Development Act since it was going to be administered by a banker-type mind, we would have some chance of getting some money back. I love the idea of these 16 other nations putting in some money.

Mr. GROSS. I will say to the gentlewoman, this is not going to help. If this program is continued—if the International Development Act program is continued, it cannot help the balance of payments insofar as we are concerned and I am sure the gentlewoman realizes that.

Mrs. GRIFFITHS. I am sorry that basically the International Development Act will not necessarily at that exact minute help. But it will help immensely if some other nations on their own are able to buy more of our products instead of borrowing more of our money at our lower interest rates. The bill which we are discussing today is designed to equalize interest rates between their countries and our country and to stanch the outflow of gold. Since its announcement, this bill has already proved that it can do that.

Now, Mr. Chairman, I would like to say that without this bill we are boxed in. If we today defeat this bill, within a week there will start to be a much greater drain of gold from this country and much greater efforts will have to be made to stanch that flow of gold.

This is one of the critical questions in America today. President Kennedy offered a remedy with which I did not then agree, but as I have watched this work, I have been convinced.

I urge, Mr. Chairman, that this bill be supported as an aid in solving a very serious problem facing this country.

Mr. GROSS. Mr. Chairman, will the gentlewoman yield?

Mrs. GRIFFITHS. I yield to the gentleman from Iowa.

Mr. GROSS. Let me see if I have this straight. The loans which have been made are hard loans, are they not? They are private loans to foreign countries?

Mrs. GRIFFITHS. Is the gentleman talking about this bill?

Mr. GROSS. What I wish to know is whether the passage of this bill will dry up the loaning of money by private sources.

Mrs. GRIFFITHS. No, indeed.

Mr. GROSS. There are hard loans to foreign countries. If those are not made, then will we have to appropriate more money out of the taxpayers pockets to provide more soft loans, as under the terms of the International Development Act?

Mrs. GRIFFITHS. I would say to the gentleman from Iowa that this certainly will not force us to make additional loans under the International Development Act. The real truth, sir, is that at the very moment they are building governmental and private enterprises in European and other countries of which you probably disapprove, because their businessmen are coming into our money market for our low-interest-rate money and building their enterprises with this money.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield such time as he may consume to the gentleman from New York [Mr. BARRY].

(Mr. BARRY asked and was given permission to revise and extend his remarks.)

Mr. BARRY. Mr. Chairman, in order to make this bill "less bad" it is unfortunate that the Ways and Means Committee did not adopt the proposal aimed at making this measure less onerous by excluding from the proposed tax all foreign securities—whether stocks or bonds—already outstanding as of the effective date of the law, thus limiting its application to new securities issues. Among the reasons for this proposal, were cited the fact that first, there has been no foreign exchange loss due to trading in such outstanding securities in the last seven calendar quarters, if allowance is made for trades in outstanding issues of international institutions which would, in any case, remain unaffected by the tax. On the contrary, trading in all other outstanding securities has produced a modest foreign exchange gain—mainly due to net sales of Canadian securities; second, exempting outstanding securities from the tax would eliminate the present "dual pricing" which causes prices higher than those prevailing abroad to be paid in some instances for identical securities provided the seller is a U.S. national, which may be construed as reflecting unfavorably on the dollar; and, third, whereas some kind of control over new issue activity prevails in most foreign financial centers and will thus not reflect on the role of the New York capital market as an international financial center, taxing purchases of existing foreign securities from foreigners would—and already has—created this effect.

In executive session the Treasury argued against this proposal on the grounds that it would leave open a loophole by permitting foreign issuers to float new securities in this market which would remain free of the proposed tax to the extent that the securities so issued are purchased by other foreigners while, at the same time, such foreigners could finance these purchases by selling here similar foreign securities already in circulation. We believe that this criticism rests on a misapprehension concerning the nature of the investment banking business. New issues, particularly foreign dollar bonds, are generally bought by our domestic financial institutions, such as insurance companies, pension funds and universities in large blocks at an issue price sufficiently competitive to create an incentive for purchase. Once distributed, however, these bonds usually remain in firm hands. Foreign institutions purchasing such bonds here in New York, on the other hand, often represent numerous smaller investors who hold on an average perhaps no more than 10 or 15 bonds. It would, therefore, not be technically feasible to offer to an American institutional buyer sufficiently large blocks at a competitive price to permit the kind of evasion cited above. Any attempt to do so would merely drive up the price of the old bonds and thus frustrate any such attempted evasion.

Given the above facts, I remain of the opinion that, if H.R. 8000 is to be enacted, this proposal would at least have served to make it less restrictive and more practical during the limited period of its validity.

[Mr. PATMAN addressed the Committee. His remarks will appear hereafter in the Appendix.]

The CHAIRMAN. All time has expired.

Under the rule, the bill is considered as having been read for amendment, and the committee amendment in the nature of a substitute now in the bill shall be considered as an original bill for the purpose of amendment, and is considered as read.

The committee amendment is as follows:

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Interest Equalization Tax Act of 1963".

(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. INTEREST EQUALIZATION TAX.

(a) IMPOSITION OF TAX.—Subtitle D (relating to miscellaneous excise taxes) is amended by adding at the end thereof the following new chapter:

"CHAPTER 41—INTEREST EQUALIZATION TAX

"Sec. 4911. Imposition of tax.
"Sec. 4912. Acquisitions.
"Sec. 4913. Limitation on tax on certain acquisitions.
"Sec. 4914. Exclusion for certain acquisitions.
"Sec. 4915. Exclusion for direct investments.
"Sec. 4916. Exclusion for investments in less developed countries.
"Sec. 4917. Exclusion for original or new issues where required for international monetary stability.
"Sec. 4918. Exemption for prior American ownership.
"Sec. 4919. Sales by underwriters and dealers to foreign persons.
"Sec. 4920. Definitions.

"SEC. 4911. IMPOSITION OF TAX.

"(a) IN GENERAL.—There is hereby imposed, on each acquisition by a United States person (as defined in section 4920(a)(4)) of stock of a foreign issuer, or of a debt obligation of a foreign obligor (if such obligation has a period remaining to maturity of 3 years or more), a tax determined under subsection (b).

"(b) AMOUNT OF TAX.—

"(1) STOCK.—The tax imposed by subsection (a) on the acquisition of stock shall be equal to 15 percent of the actual value of the stock.

"(2) DEBT OBLIGATIONS.—The tax imposed by subsection (a) on the acquisition of a debt obligation shall be equal to a percentage of the actual value of the debt obligation measured by the period remaining to its maturity and determined in accordance with the following table:

"If the period remaining to maturity is:	The tax, as a percentage of actual value, is:
"At least 3 years, but less than 3½ years.	2.75 percent
At least 3½ years, but less than 4½ years.	3.55 percent
At least 4½ years, but less than 5½ years.	4.35 percent
At least 5½ years, but less than 6½ years.	5.10 percent
At least 6½ years, but less than 7½ years.	5.80 percent
At least 7½ years, but less than 8½ years.	6.50 percent
At least 8½ years, but less than 9½ years.	7.10 percent
At least 9½ years, but less than 10½ years.	7.70 percent
At least 10½ years, but less than 11½ years.	8.30 percent
At least 11½ years, but less than 13½ years.	9.10 percent
At least 13½ years, but less than 16½ years.	10.30 percent
At least 16½ years, but less than 18½ years.	11.35 percent
At least 18½ years, but less than 21½ years.	12.25 percent
At least 21½ years, but less than 23½ years.	13.05 percent
At least 23½ years, but less than 26½ years.	13.75 percent
At least 26½ years, but less than 28½ years.	14.35 percent
28½ years or more......	15.00 percent."

"(c) PERSONS LIABLE FOR TAX.—

"(1) IN GENERAL.—The tax imposed by subsection (a) shall be paid by the person acquiring the stock or debt obligation involved.

"(2) CROSS REFERENCE.—

"For imposition of penalty on maker of false certificate in lieu of or in addition to tax on acquisition in certain cases, see section 6681.

"(d) TERMINATION OF TAX.—The tax imposed by subsection (a) shall not apply to any acquisition made after December 31, 1965.

"SEC. 4912. ACQUISITIONS.

"(a) IN GENERAL.—For purposes of this chapter, the term 'acquisition' means any purchase, transfer, distribution, exchange, or other transaction by virtue of which ownership is obtained either directly or through a nominee, custodian, or agent. A United States person acting as a fiscal agent in connection with the redemption or purchase for retirement of stock or debt obligations (whether or not acting under a trust arrangement) shall not be considered to obtain ownership of such stock or debt obligations. The exercise of a right to convert a debt obligation (as defined in section 4920(a)(1)) into stock shall be deemed an acquisition of stock from the foreign issuer by the person exercising such right. Any extension or renewal of an existing debt obligation requiring affirmative action of the obligee shall be considered the acquisition of a new debt obligation.

"(b) SPECIAL RULES.—For purposes of this chapter.—

"(1) CERTAIN TRANSFERS TO FOREIGN TRUSTS.—Any transfer (other than in a sale or exchange for full and adequate consideration) of money or other property to a foreign trust shall, if such trust acquires stock or debt obligations (of one or more foreign issuers or obligors) the direct acquisition of which by the transferor would be subject to the tax imposed by section 4911, be deemed an acquisition by the transferor (as of the time of such transfer) of stock of a foreign issuer in an amount equal to the actual value of the money or property transferred or, if less, the actual value of the stock or debt obligations so acquired by such trust. Contributions to a foreign pension or profit-sharing trust established by an employer, made by an employee who performs personal services for such employer on a full-time basis in a foreign country (and is not an owner-employee as defined in section 401 (c)(3)), shall not be considered under the preceding sentence as transfers which may be deemed acquisitions of stock of a foreign issuer.

"(2) CERTAIN TRANSFERS TO FOREIGN CORPORATIONS AND PARTNERSHIPS.—Any transfer of money or other property to a foreign corporation or a foreign partnership—

"(A) as a contribution to the capital of such corporation or partnership, or

"(B) in exchange for one or more debt obligations of such corporation or partnership, if it is a foreign corporation or partnership which is formed or availed of by the transferor for the principal purpose of acquiring (in the manner described in section 4915(c)(1) an interest in stock or debt obligations the direct acquisition of which by the transferor would be subject to the tax imposed by section 4911, shall be deemed an acquisition by the transferor of stock of a foreign corporation in an amount equal to the actual value of the money or property transferred.

"(3) ACQUISITIONS FROM DOMESTIC CORPORATION OR PARTNERSHIP FORMED OR AVAILED OF TO OBTAIN FUNDS FOR FOREIGN ISSUER OR OBLIGOR.—The acquisition of stock or a debt obligation of a domestic corporation (other than a domestic corporation described in section 4920(a)(3)(B)), or a domestic partnership, formed or availed of for the principal purpose of obtaining funds (directly or indirectly) for a foreign issuer or obligor, shall be deemed an acquisition (from such foreign issuer or obligor) of stock or a debt obligation of such foreign issuer or obligor.

"(4) REORGANIZATION EXCHANGES.—Any acquisition of stock or debt obligations of a foreign issuer or obligor in an exchange to which section 354, 355, or 356 applies (or would, but for section 367, apply) shall be deemed an acquisition from the foreign issuer or obligor in exchange for its stock or for its debt obligations.

"SEC. 4913. LIMITATION ON TAX ON CERTAIN ACQUISITIONS.

"(a) CERTAIN SURRENDERS, EXTENSIONS, RENEWALS, AND EXERCISES.—

"(1) GENERAL RULE.—If stock of a debt obligation of a foreign issuer or obligor is acquired by a United States person as the result of—

"(A) the surrender to the foreign obligor, for cancellation, of a debt obligation of such obligor,

"(B) the extension or renewal of an existing debt obligation requiring affirmative action of the obligee; or

"(C) the exercise of an option or similar right to acquire such stock or debt obligation (or a right to convert a debt obligation into stock),

then the tax imposed on such acquisition shall not exceed the amount determined under paragraph (2) or (3).

"(2) GENERAL LIMITATION.—Except in cases to which paragraph (3) applies, the tax imposed upon an acquisition described in paragraph (1) shall be limited to—

"(A) the amount of tax imposed by section 4911, less

"(B) the amount of tax which would have been imposed under section 4911 if the debt obligation which was surrendered, extended, or renewed, or the option or right which was exercised, had been acquired in a transaction subject to such tax immediately before such surrender, extension, renewal, or exercise.

For purposes of this paragraph, a defaulted debt obligation of the government of a foreign country or a political subdivision thereof (or an agency or instrumentality of such a government) which has been in default as to principal for at least 10 years and which is surrendered in exchange for another debt obligation of that government (or agency or instrumentality) shall be deemed to have an actual value and period remaining to maturity equal to that of the debt obligation acquired.

"(3) SPECIAL LIMITATIONS.—

"(A) CONVERSIONS OF DEBT OBLIGATIONS INTO STOCK.—The tax imposed upon an acquisition of stock pursuant to the exercise of a right to convert a debt obligation (as defined in section 4920(a)(1)) into stock shall be limited to—

"(i) the amount of tax which would have been imposed by section 4911 if the debt obligation, pursuant to section 4920(a)(2) (D), had been treated as stock at the time of its acquisition by the person exercising the right (or by a decedent from whom such person acquired the right by bequest or inheritance or by reason of such decedent's death), less

"(ii) the amount of tax paid by the person exercising the right (or by such decedent) as a result of the acquisition of the convertible debt obligation.

"(B) EXERCISE OF CERTAIN SHAREHOLDERS' RIGHTS.—The tax imposed upon an acquisition of stock or a debt obligation of a foreign corporation by a United States person who is a shareholder of such corporation, where—

"(i) the stock or debt obligation is acquired pursuant to the exercise of an option or similar right to acquire such stock or debt obligation which was acquired by such person in a distribution by such corporation with respect to its stock, and

"(ii) such option or right by its terms expires or terminates within a period not exceeding 90 days from the date so distributed to him,

shall be limited to the amount of tax which would have been imposed by section 4911 if the price paid under such option or right were the actual value of the stock or debt obligation acquired.

"(C) CERTAIN EMPLOYEE STOCK OPTIONS.—The tax imposed upon an acquisition of stock of a foreign issuer by a United States person pursuant to the exercise of an option or similar right described in section 4914(a)(7) shall be limited to the amount of tax which would have been imposed under section 4911 if the price paid under such option or right were the actual value of the stock acquired.

"(b) CERTAIN TRANSFERS WHICH ARE DEEMED ACQUISITIONS.—The tax imposed upon an acquisition which is deemed to have been made by reason of a transfer of money or other property to a foreign trust, or a foreign corporation or partnership, as described in section 4912(b)(1) or (2), shall be limited to—

"(1) the amount of tax imposed by section 4911, less

"(2) the amount of tax paid by the transferor as the result of the transfer being otherwise taxable as an acquisition under this chapter.

SEC. 4914. EXCLUSION FOR CERTAIN ACQUISITIONS

"(a) TRANSACTIONS NOT CONSIDERED ACQUISITIONS.—The term 'acquisition' shall not include—

"(1) any transfer between a person and his nominee, custodian, or agent;

"(2) any transfer described in section 4343(a) (relating to certain transfers by operation of law from decedents, minors, incompetents, financial institutions, bankrupts, successors, foreign governments and aliens, trustees, and survivors);

"(3) any transfer by legacy, bequest, or inheritance to a United States person, or by gift to a United States person who is an individual;

"(4) any distribution by a corporation of its stock or debt obligations to a shareholder with respect to or in exchange for its stock;

"(5) any exchange to which section 361 applies (or would, but for section 367, apply), where the transferor corporation was a domestic corporation and was engaged in the active conduct of a trade or business, other than as a dealer in securities, immediately before the date on which the assets involved are transferred to the acquiring corporation;

"(6) any exercise of a right to convert indebtedness, pursuant to its terms, into stock, if such indebtedness is treated as stock pursuant to section 4920(a)(2)(D); or

"(7) the grant of a stock option or similar right to a United States person who is an individual, for any reason connected with his employment by a corporation, if such option or right (A) is granted by the employer corporation, or its parent or subsidiary corporation, to purchase stock of any of such corporations, and (B) by its terms is not transferable by such United States person otherwise than by will or the laws of descent and distribution, and is exercisable, during his lifetime, only by him.

"(b) EXCLUDED ACQUISITIONS.—The tax imposed by section 4911 shall not apply to the acquisition—

"(1) THE UNITED STATES.—Of stock or debt obligations by an agency or wholly owned instrumentality of the United States.

"(2) COMMERCIAL BANK LOANS.—

"(A) Of debt obligations by a commercial bank in making loans in the ordinary course of its commercial banking business.

"(B) Of stock or debt obligations by a commercial bank through foreclosure, where such stock or debt obligations were held as security for loans made in the ordinary course of its commercial banking business.

"(3) ACQUISITIONS REQUIRED UNDER FOREIGN LAW.—Of stock or debt obligations by a United States person doing business in a foreign country to the extent that such acquisitions are reasonably necessary to satisfy minimum requirements relating to holdings of stock or debt obligations of foreign issuers or obligors imposed by the laws of such foreign country; except that if any of such requirements relate to the holding of insurance reserves, the exclusion otherwise allowable under this paragraph with respect to acquisitions made by such United States person during any calendar year shall be reduced by the maximum amount of the exclusion which could be allowed under subsection (e) with respect to acquisitions made by such person during that year, or by the amount of the insurance reserves which must be held in order to satisfy such requirements, whichever is less.

"(4) EXPORT CREDIT, ETC., TRANSACTIONS.—Of stock or debt obligations arising from the sale of property or services by United States persons, to the extent provided in subsection (c).

"(5) LOANS TO ASSURE RAW MATERIALS SOURCES.—Of debt obligations by United States persons in connection with loans made to foreign corporations to assure raw materials sources, to the extent provided in subsection (d).

"(6) ACQUISITIONS BY INSURANCE COMPANIES DOING BUSINESS IN FOREIGN COUNTRIES.—Of stock or debt obligations by insurance companies doing business in foreign countries, to the extent provided in subsection (e).

"(7) ACQUISITIONS BY CERTAIN TAX-EXEMPT LABOR, FRATERNAL, AND SIMILAR ORGANIZATIONS HAVING FOREIGN BRANCHES OR CHAPTERS.—Of stock or debt obligations by certain tax-exempt United States persons operating in foreign countries through local organizations, to the extent provided in subsection (f).

"(c) EXPORT CREDIT, ETC., TRANSACTIONS.—

"(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor of a debt obligation arising out of the sale of tangible personal property or services (or both) to such obligor by any United States person, if—

"(A) payment of such debt obligation is guaranteed or insured, in whole or in part, by an agency or wholly owned instrumentality of the United States; or

"(B) the United States person acquiring such debt obligation makes the sale in the ordinary course of his trade or business and not less than 85 percent of the purchase price is attributable to the sale of property manufactured, produced, gown, or extracted in the United States, or to the performance of services by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member), or to both.

The term 'services', as used in this paragraph and paragraph (2), shall not be construed to include functions performed as an underwriter.

"(2) ALTERNATE RULE PRODUCING EXPORTERS.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person from a foreign issuer or obligor of its stock in payment for, or of a debt obligation arising out of, the sale of tangible personal property or services (or both) to such issuer or obligor, if

"(A) not less than 30 percent of the purchase price is attributable to the sale of property manufactured, produced, grown, or extracted in the United States by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member), or to the performance of services by such United States person (or by one or more such corporations), or to both, and

"(B) not less than 50 percent of the purchase price is attributable to the sale of property manufactured, produced, grown, or extracted in the United States, or to the performance of services by United States persons, or both.

"(3) EXPORT-RELATED LOANS.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor by a United States person of a debt obligation arising out of a loan made to the obligor to increase or maintain sales of tangible personal property produced, grown, or extracted in the United States by such United States person (or by one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member), but only if the proceeds of the loan will be used by the obligor for the installation, maintenance, or improvement of facilities outside the United States which (during the period the loan is outstanding) will be used for the storage, handling, transportation, processing, packaging, or servicing of property a substantial portion of which is tangible personal property produced, grown, or extracted in the United States by such person (or one or more such corporations).

"(4) OTHER LOANS RELATED TO CERTAIN SALES BY UNITED STATES PERSONS.—The tax imposed by section 4911 shall not apply to the acquisition from a foreign obligor by a United States person of a debt obligation of such obligor if such debt obligation—

"(A) was received by such United States person as all or part of the purchase price provided in a contract under which the foreign obligor agrees to purchase for a period of 3 years or more ores or minerals (or derivatives thereof) extracted outside the United States—

"(i) by such United States person;

"(ii) by one or more includible corporations in an affiliated group (as defined in section 48(c)(3)(C)) of which such person is a member; or

"(iii) by a corporation at least 10 percent of the total combined voting power of all classes of stock of which is owned by such United States person, if at least 50 percent of such voting power is owned by United States persons each of whom owns at least 10 percent of such voting power; or

"(B) arises out of a loan (made by such United States person to such foreign obligor) the proceeds of which will be used by such obligor for the installation, maintenance, or improvement of facilities outside the United States which (during the period the loan is outstanding) will be used for the storage, handling, transportation, processing, or servicing of ores or minerals (or derivatives thereof) a substantial portion of which is extracted outside the United States by such United States person or by a corporation referred to in clause (ii) or (iii) of subparagraph (A).

"(5) CROSS REFERENCE.—

"For loss of exclusion otherwise allowable under this subsection in case of certain subsequent transfers, see subsection (g).

"(d) LOANS TO ASSURE RAW MATERIALS SOURCES.—

"(1) GENERAL RULE.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person of a debt obligation arising out of a loan made by such person to a foreign corporation, if—

"(A) such foreign corporation extracts or processes ores or minerals the available deposits of which in the United States are inadequate to satisfy the needs of domestic producers;

"(B) United States persons own at the time of such acquisition at least 50 percent of the total combined voting power of all classes of stock of such foreign corporation; and

"(C) such loan will be amortized under a contract or contracts in which persons owning stock of such corporation (including at least one of the United States persons referred to in subparagraph (B)) agree to pay during the period remaining to maturity of such obligation, by purchasing a part of the production of such corporation or otherwise, a portion of such corporation's costs of operation and costs of amortizing outstanding loans.

"(2) LIMITATION.—The exclusion from tax provided by paragraph (1) shall apply to the acquisition of any debt obligation of a foreign corporation only to the extent that—

"(A) the applicable percentage of (i) the actual value of the debt obligation acquired, plus (ii) the actual value (determined as of the time of such acquisition) of all other debt obligations representing loans which were theretofore made to the foreign corporation during the same calendar year and which are amortizable under contracts of the type described in paragraph (1)(C), exceeds

"(B) the actual value of the debt obligations described in subparagraph (A)(ii) representing loans made by United States persons, to the extent that the acquisition of such obligations was excluded from tax under this subsection.

As used in this paragraph with respect to the acquisition of a debt obligation, the term 'applicable percentage' means the lesser of (i) the percentage of the total combined voting power of all classes of stock of the foreign corporation which is owned by United States persons at the time of such acquisition, or (ii) the percentage of the corporation's operating and amortization costs for the calendar year which all such United States persons have agreed to pay (as of the time of such acquisition) under contracts of the type described in paragraph (1)(C).

"(e) ACQUISITIONS BY INSURANCE COMPANIES DOING BUSINESS IN FOREIGN COUNTRIES.—

"(1) IN GENERAL.—The tax imposed by section 4911 shall not apply to the acquisition of stock or a debt obligation by a United States person which is an insurance company subject to taxation under section 802, 821, or 831, if—

"(A) such stock or debt obligation is designated (in accordance with paragraph (3)) as part of a fund of assets established and maintained by such insurance company (in accordance with paragraph (2)) with respect to foreign risks insured or reinsured by such company under contracts (including annuity contracts) which, by their terms, provide that the proceeds shall be payable only in the currency of a foreign country; and

"(B) the actual value of all of the assets held in such fund immediately after the stock or debt obligation has been designated as a part thereof does not exceed 110 percent of the applicable allowable reserve determined in accordance with paragraph (4).

As used in this subsection, the term 'foreign risks' means risks in connection with property outside, or liability arising out of activity outside, or in connection with the lives or health of residents of countries other than, the United States.

"(2) ESTABLISHMENT AND MAINTENANCE OF FUND OF ASSETS.—Each insurance company which desires to obtain the benefit of exclusions under this subsection shall (as a condition of entitlement to any such exclusion) establish and maintain a fund (or funds) of assets in accordance with this paragraph and paragraph (3). A life insurance company (as defined in section 801(a)) shall establish such a fund of assets separately for each foreign currency (other than the currency of a country which qualifies as a less developed country) in which the proceeds of its insurance contracts are payable and for which insurance reserves are maintained by such company, and with respect to which it desires to obtain the benefits of exclusions under this subsection; and the preceding sentence shall be applied separately to each such fund in determining the company's entitlement to exclude acquisitions of stock and debt obligations designated as a part thereof. An insurance company other than a life insurance company (as so defined) shall establish a single fund of assets for all foreign currencies (other than currencies of countries which qualify as less developed countries at the time of the initial designation) in which the proceeds of its insurance contracts are payable and for which insurance reserves are maintained by such company.

"(3) DESIGNATION OF ASSETS.—

"(A) INITIAL DESIGNATION.—

"(i) REQUIREMENT OF INITIAL DESIGNATION.—An insurance company desiring to establish a fund (or funds) of assets under paragraph (2) shall initially designate, as part or all of such fund (or funds), stock of foreign issuers, or debt obligations of foreign obligors having a period remaining to maturity of 3 years or more, or both, which it owned on December 10, 1963, to the extent that such stock or debt obligations or both had an actual value as of such date not in excess (in the case of any such fund) of 110 percent of the applicable allowable reserve of such company as determined in accordance with paragraph (4)(A). The designation or designations which an insurance company is required to make under the preceding sentence shall be made first from stock and debt obligations which were acquired by such company on or before July 18, 1963, and shall in no case include any stock or debt obligation described in paragraph (1), (2), or (3) of section 4916(a).

"(ii) TIME AND MANNER OF INITIAL DESIGNATION.—Any initial designation which an insurance company is required to make under this subparagraph shall be made on or before the 30th day after the date of the enactment of this chapter (or at such later time as the Secretary or his delegate may by regulations prescribe) by the segregation on the books of such company of the stock or debt obligations (or both) designated.

"(B) DESIGNATIONS TO MAINTAIN FUND.—To the extent permitted by subparagraph (C), an insurance company may claim an exclusion under this subsection with respect to the acquisition of stock or a debt obligation of a foreign issuer or obligor after December 10, 1963, if such company designates such stock or debt obligation as part of a fund of assets described in paragraph (2) before the expiration of 30 days after the date of such acquisition (and continues to own it until the time the designation is made); except that any such stock or debt obligation acquired before the initial designation of assets to the fund is actually made as provided in subparagraph (A)(ii) may be designated under this subparagraph at the time of such initial designation without regard to such 30-day and continued ownership requirements.

"(C) LIMITATION.—No designation of stock or a debt obligation as part of a fund of assets shall be made under this paragraph to the extent that, immediately thereafter, the actual value of all of the assets held in such fund would exceed 110 percent of the applicable allowable reserve determined in accordance with paragraph (4).

"(4) DETERMINATION OF RESERVES.—

"(A) GENERAL RULE.—For purposes of this subsection, the term 'allowable reserve' means—

"(i) in the case of a life insurance company (as defined in section 801(a)), the items taken into account under section 810(c) arising out of contracts of insurance and reinsurance (including annuity contracts) which relate to foreign risks and the proceeds of which are payable in a single foreign currency (other than the currency of a less developed country); and

"(ii) in the case of an insurance company other than a life insurance company (as so defined), the amount of its unearned premiums and unpaid losses which relate to foreign risks insured or reinsured under contracts providing for payment in foreign currencies (other than currencies of less developed countries) and which are taken into account in computing taxable income under section 832(b) (4 and 5) (for such purpose treating underwriting income of an insurance company subject to taxation under section 821 as taxable income under section 832).

The determination of an allowable reserve of an insurance company for any calendar year shall be made as of the close of the previous calendar year.

"(B) SPECIAL ELECTION WITH RESPECT TO DETERMINATION OF ALLOWABLE RESERVE.—Notwithstanding the last sentence of subparagraph (A), an insurance company which has established a fund of assets under this subsection may elect, in such manner and form as the Secretary or his delegate shall by regulations prescribe and at the time it is required under section 6076 to file its return for the period in which the last day of the calendar year occurs, to make the determination of the allowable reserve applicable to such fund with respect to such year as of the close of such year. Upon making such election the company may (if the allowable reserve as so determined is higher than as determined under subparagraph (A)) designate additional stock or debt obligations (or both) as part of such fund, so long as the company still owns such stock or debt obligations at the time of designation and the actual value of all of the assets held in such fund is not increased to more than 110 percent of the allowable reserve applicable to such fund as determined under this subparagraph. Any tax paid by such company under section 4911 on the acquisition of the additional stock or debt obligations so designated shall constitute an overpayment of tax; and, under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made with respect to such overpayment.

"(5) NONRECOGNITION OF ARTIFICIAL INCREASES IN ALLOWABLE RESERVE.—An insurance or reinsurance contract which is entered into or acquired by an insurance company for the principal purpose of artificially increasing the amount determined as an allowable reserve as provided in paragraph (4) shall not be recognized in computing whether an acquisition of stock or a debt obligation of a foreign issuer or obligor can be excluded under this subsection.

"(f) ACQUISITIONS BY CERTAIN TAX-EXEMPT LABOR, FRATERNAL, AND SIMILAR ORGANIZATIONS HAVING FOREIGN BRANCHES OR CHAPTERS.—The tax imposed by section 4911 shall not apply to the acquisition of stock or debt obligations by a United States person which is described in section 501(c) and exempt from taxation under subtitle A, and which operates in a foreign country through a local organization or organizations, to the extent that—

"(1) such acquisition results from the investment or reinvestment of contributions or membership fees paid in the currency of such country by individuals who are members of the local organization or organizations, and

"(2) the stock or debt obligations acquired are held exclusively for the benefit of the members of any of such local organizations.

"(g) LOSS OF ENTITLEMENT TO EXCLUSION IN CASE OF CERTAIN SUBSEQUENT TRANSFERS.—

"(1) IN GENERAL.—

"(A) Where an exclusion provided by paragraph (1)(B), (2), (3), or (4) of subsection (c), or the exclusion provided by subsection (d), has applied with respect to the acquisition of a debt obligation by any person, but such debt obligation is subsequently transferred by such person (before the termination date specified in section 4911(d)) to a United States person otherwise than—

"(i) to any agency or wholly owned instrumentality of the United States;

"(ii) to a commercial bank acquiring the obligation in the ordinary course of its commercial banking business; or

"(iii) in a transaction described in subsection (a) (1) or (2), or a transaction (other than a transfer by gift) described in subsection (a)(3),

then liability for the tax imposed by section 4911 (in an amount determined under subparagraph (D) of this pargaraph) shall be incurred by the transferor (with respect to such debt obligation) at the time of such subsequent transfer.

"(B) Where the exclusion provided by paragraph (2) of subsection (c) has applied with respect to the acquisition of stock by any person, but such stock is subsequently transferred by such person (before the termination date specified in section 4911(d)) to a United States person otherwise than in a transaction described in subsection (a) (1) or (2), or a transaction (other than a transfer by gift) described in subsection (a)(3), then liability for the tax imposed by section 4911 (in an amount determined under subparagraph (D) of this paragraph) shall be incurred by the transferor (with respect to such stock) at the time of such subsequent transfer.

"(C) Where the exclusion provided by subsection (f) has applied with respect to the acquisition of stock or a debt obligation by any person, but such stock or debt obligation is subsequently transferred by such person (before the termination date specified in section 4911(d)) to any United States person, then liability for the tax imposed by section 4911 (in an amount determined under subparagraph (D) of this paragraph) shall be incurred by the transferor (with respect to such stock or debt obligation) at the time of such subsequent transfer.

"(D) In any case where an exclusion provided by paragraph (1)(B), (2), (3), or (4) of subsection (c) or by subsection (d) or (f) has applied, but a subsequent transfer described in subparagraph (A), (B), or (C) of this paragraph occurs and liability for the tax imposed by section 4911 is incurred by the transferor as a result thereof, the amount of such tax shall be equal to the amount of tax for which the transferor would have been liable under such section upon his acquisition of the stock or debt obligation involved if such exclusion had not applied with respect to such acquisition.

"(2) United states person treated as foreign person on disposition of certain securities.—For purposes of this chapter, if, after December 10, 1963, a United States person sells or otherwise disposes of stock or a debt obligation which it—

"(A) acquired to satisfy minimum requirements imposed by foreign law and with respect to which it claimed an exclusion under subsection (b)(3), or

"(B) designated (or was required to designate) as part of a fund of assets under subsection (e),

such person shall not, with respect to that stock or debt obligation, be considered a United States person.

"Sec. 4915. Exclusion for Direct Investments.

"(a) In General.—

"(1) Excluded acquisitions.—Except as provided in subsections (c) and (d) of this section, the tax imposed by section 4911 shall not apply to the acquisition by a United States person (A) of stock or a debt obligation of a foreign corporation if immediately after the acquisition such person (or one or more includible corporations in an affiliated group, as defined in section 1504, of which such person is a member) owns (directly or indirectly) 10 percent or more of the total combined voting power of all classes of stock of such foreign corporation, or (B) of stock or a debt obligation of a foreign partnership if immediately after the acquisition such person owns (directly or indirectly) 10 percent or more of the profits interest in such foreign partnership. For purposes of the preceding sentence, stock owned (directly or indirectly) by or for a foreign corporation shall be considered as being owned proportionately by its shareholders, and stock owned (directly or indirectly) by or for a foreign partnership shall be considered as being owned proportionately by its partners.

"(2) Overpayment with respect to certain taxable acquisitions.—The tax paid under section 4911 on the acquisition of stock of a foreign corporation or foreign partnership by a United States person shall (unless this subsection is inapplicable by reason of subsection (c) or (d)) constitute an overpayment of tax if such person continuously holds such stock from the time of its acquisition to the last day of the calander year in which the acquisition was made and as of such last day meets the ownership requirement of paragraph (1). Under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made with respect to such overpayment.

"(b) Special Rule for Government-Controlled Enterprises.—A United States person shall be considered to meet the ownership requirement of subsection (a)(1) with respect to a foreign corporation or a foreign partnership if—

"(1) the government of a foreign country or any political subdivision thereof, or an agency or instrumentality of such a government, directly or indirectly through such corporation or partnership or otherwise, restricts to less than 10 percent the percentage of the total combined voting power of all classes of stock of such corporation, or the percentage of the profits interest in such partnership, which may be owned by such United States person;

"(2) such person owns at least 5 percent of the total combined voting power of so much of such stock, or at least 5 percent of so much of such profits interest, as is not owned by any such government, agency, or instrumentality;

"(3) a trade or business actively conducted in one or more foreign countries by such United States person (or by one or more corporations in an affiliated group, as defined in section 48(c)(3)(C), of which such person is a member) is directly related to the business carried on by such foreign corporation or foreign partnership; and

"(4) such person, and one or more other United States persons each of which satisfies the conditions set forth in paragraphs (2) and (3), together meet the ownership requirement of subsection (a)(1).

"(c) Exception for Foreign Corporations or Partnerships Formed or Availed of for Tax Avoidance.—

"(1) In general.—The provisions of subsections (a) and (b) shall be inapplicable in any case where the foreign corporation or foreign partnership is formed or availed of by the United States person for the principal purpose of acquiring, through such corporation or partnership, an interest in stock or debt obligations (of one or more other foreign issuers or obligors) the direct acquisition of which by the United States person would be subject to the tax imposed by section 4911.

"(2) Commercial banks, underwriters, and required holdings.—For the purposes of this subsection, the acquisition by a United States persons of stock or debt obligations of a foreign corporation or foreign partnership which acquires stock or debt obligations of foreign issuers or obligors—

"(A) in making loans in the ordinary course of its business as a commercial bank,

"(B) in the ordinary course of its business of underwriting and distributing securities issued by other persons, or

"(C) to satisfy minimum requirements relating to holdings of stock or debt obligations of foreign issuers or obligors imposed by the laws of foreign countries where such foreign corporation or foreign partnership is doing business.

shall not, by reason of such acquisitions by the foreign corporation or foreign partnership, be considered an acquisition by the United States person of an interest in stock or debt obligations of foreign issuers or obligors.

"(3) Loss of entitlement to exclusion or refund where foreign corporation or partnership is availed of for tax avoidance.—In any case where—

"(A) the exclusion provided by subsection (a)(1) has applied with respect to the acquisition of stock or a debt obligation by a United States person, or

"(B) a credit or refund of tax under subsection (a)(2) has been received by a United States person with respect to acquisitions of stock made during a calendar year,

but the foreign corporation or partnership is availed of by such person (after the acquisition described in subparagraph (A) is made or the calendar year described in subparagraph (B) has ended, but before the termination date specified in section 4911(d)) for the principal purpose described in paragraph (1) of this subsection, then liability for the tax imposed by section 4911 shall be incurred by such person (with respect to such stock or debt obligation) at the time the foreign corporation or partnership is so availed of; and the amount of such tax shall be equal (in a case described in subparagraph (A)) to the amount of tax for which such person would have been liable under such section upon his acquisition of the stock or debt obligations involved if such exclusion had not applied to such acquisition, or (in a case described in subparagraph (B)) to the aggregate amount of tax for which such person was liable under such section upon his acquisitions of the stock involved.

"(d) Exception for Acquisitions Made With Intent To Sell to United States Persons.—The provisions of subsections (a) and (b) shall be inapplicable in any case where the acquisition of stock or debt obligations of the foreign corporation or foreign partnership is made with an intent to sell, or to offer to sell, any part of the stock or debt obligations acquired to United States persons.

"Sec. 4916. Exclusion for Investments in Less Developed Countries.

"(a) General Rule.—The tax imposed by section 4911 shall not apply to the acquisition by a United States person of—

"(1) a debt obligation issued or guaranteed by the government of a less developed country or a political subdivision thereof, or by an agency or instrumentality of such a government;

"(2) stock or a debt obligation of a less developed country corporation; or

"(3) a debt obligation issued by an individual or partnership resident in a less developed country in return for property which is used, consumed, or disposed of wholly within one or more less developed countries.

"(b) LESS DEVELOPED COUNTRY DEFINED.—For purposes of this section, the term 'less developed country' means any foreign country (other than an area within the Sino-Soviet bloc) with respect to which, as of the date of an acquisition referred to in subsection (a), there is in effect an Executive order by the President of the United States designating such country as an economically less developed country for purposes of the tax imposed by section 4911. For purposes of the preceding sentence, Executive Order Numbered 11071, dated December 27, 1962 (designating certain areas as economically less developed countries for purposes of subparts A and F of part III of subchapter N, and section 1248 of part IV of subchapter P, of chapter 1), shall be deemed to have been issued and in effect, for purposes of the tax imposed by section 4911, on July 18, 1963, and continuously thereafter until there is in effect the Executive order referred to in the preceding sentence. An oversea territory, department, province, or possession of any foreign country may be designated as a separate country. No designation shall be made under this subsection with respect to any of the following: Australia, Austria, Belgium, Canada, Denmark, France, Germany (Federal Republic), Hong Kong, Italy, Japan, Liechtenstein, Luxembourg, Monaco, Netherlands, New Zealand, Norway, Republic of South Africa, San Marino, Spain, Sweden, Switzerland, United Kingdom.

After the President (under the first sentence of this subsection) has designated any foreign country as an economically less developed country for purposes of the tax imposed by section 4911, he shall not terminate such designation (either by issuing an Executive order for that purpose or by issuing an Executive order which has the effect of terminating such designation) unless, at least 30 days before such termination, he has notified the Senate and the House of Representatives of his intention to terminate such designation.

"(c) LESS DEVELOPED COUNTRY CORPORATION DEFINED.—

"(1) IN GENERAL.—For the purposes of this section, the term 'less developed country corporation' means a foreign corporation which for the applicable periods set forth in paragraph (2)—

"(A) meets the requirements of section 955(c) (1) or (2); or

"(B) has gross income 80 percent or more of which is derived from sources within less developed countries, and has assets 80 percent or more in value of which consists of property described in clauses (iii), (iv), and (v) of section 955(c)(1)(B);

except that in applying this paragraph the determination of whether a foreign country is a less developed country shall be made in accordance with subsection (b) of this section.

"(2) APPLICABLE PERIODS.—The determinations required by subparagraphs (A) and (B) of paragraph (1) shall be made (A) for the annual accounting period (if any) of the foreign corporation immediately preceding its accounting period in which the acquisition involved is made, (B) for the annual accounting period of the foreign corporation in which such acquisition is made, and (C) for the next succeeding annual accounting period of the foreign corporation.

"(3) SPECIAL RULES FOR TREATMENT OF CORPORATIONS AS LESS DEVELOPED COUNTRY CORPORATIONS.—A foreign corporation shall be treated as satisfying the definition in paragraph (1) with respect to the acquisition by a United States person of stock or a debt obligation if—

"(A) before the acquisition occurs (or, in the case of an acquisition occurring before or within 60 days after the date of the enactment of this chapter, pursuant to application made within such period following such date as may be prescribed by the Secretary or his delegate in regulations), it is established to the satisfaction of the Secretary or his delegate that such foreign corporation—

"(i) has met the applicable requirements of paragraph (1) for the period (if any) referred to in paragraph (2)(A), and

"(ii) may reasonably be expected to satisfy such requirements for the periods referred to in paragraphs (2) (B) and (C); or

"(B) in the case of an acquisition occurring on or before December 10, 1963, the applicable requirements of paragraph (1) are met for the annual accounting period of the foreign corporation immediately preceding its accounting period in which the acquisition occurred.

"(4) TREATMENT OF CORPORATIONS AS LESS DEVELOPED COUNTRY CORPORATIONS IN OTHER CASES.—A foreign corporation may also be treated as satisfying the definition in paragraph (1) with respect to the acquisition by a United States person of stock or a debt obligation (but subject to possible subsequent liability for tax under subsection (d)(1)), if—

"(A) such corporation has met the applicable requirements of paragraph (1) for the period (if any) referred to in paragraph (2)(A), and

"(B) such person reasonably believes that such corporation will satisfy such requirements for the periods referred to in paragraphs (2) (B) and (C).

"(d) SUBSEQUENT LIABILITY FOR TAX IN CERTAIN CASES.—

"(1) STOCK AND DEBT OBLIGATIONS OF CERTAIN CORPORATIONS.—Where a foreign corporation is treated under subsection (c)(4) as satisfying the definition in subsection (c)(1) and the exclusion provided by subsection (a)(2) has applied with respect to the acquisition of stock or a debt obligation of such corporation by any person, but such corporation fails to satisfy the definition contained in subsection (c)(1) for either of the applicable accounting periods referred to in clauses (B) and (C) of subsection (c)(2) (and it is not treated under subsection (c)(3) as satisfying such definition), then liability for the tax imposed by section 4911 shall be incurred by such person (with respect to such stock or debt obligation) as of the close of the earliest such applicable accounting period (ending on or before the termination date specified in section 4911(d)) with respect to which the corporation fails to satisfy such definition; and the amount of such tax shall be equal to the amount of tax for which such person would have been liable under such section upon the acquisition of the stock or debt obligation involved if such exclusion had not applied with respect to such acquisition.

"(2) DEBT OBLIGATIONS ISSUED IN RETURN FOR CERTAIN PROPERTY.—Where the exclusion provided by subsection (a)(3) has applied with respect to the acquisition by a United States person of a debt obligation issued in return for property as provided in such subsection, but part or all of such property is used, consumed, or disposed of (before the termination date specified in section 4911(d)) otherwise than wholly within one or more less developed countries, then liability for the tax imposed by section 4911 shall be incurred by such person (with respect to such debt obligation) as of the time such property is first so used, consumed, or disposed of, and the amount of such tax shall be equal to the amount of tax for which such person would have been liable under such section upon the acquisition of the debt obligation involved if such exclusion had not applied with respect to such acquisition.

"SEC. 4917. EXCLUSION FOR ORIGINAL OR NEW ISSUES WHERE REQUIRED FOR INTERNATIONAL MONETARY STABILITY.

"(a) IN GENERAL.—If the President of the United States shall at any time determine that the application of the tax imposed by section 4911 will have such consequences for a foreign country as to imperil or threaten to imperil the stability of the international monetary system, he may by Executive order specify that such tax shall not apply to the acquisition by a United States person of stock or a debt obligation of the government of such foreign country or a political subdivision thereof, any agency or instrumentality of any such government, any corporation, partnership, or trust (other than a company registered under the Investment Company Act of 1940) organized under the laws of such country or any such subdivision, or any individual resident therein, to the extent that such stock or debt obligation is acquired as all or part of an original or new issue as to which there is filed such notice of acquisition as the Secretary or his delegate may prescribe by regulations. In the case of acquisitions made during the period beginning July 19, 1963, and ending with the date of the enactment of this chapter, the notice of acquisition may be filed within such period following the date of such enactment as the Secretary or his delegate may prescribe by regulations.

"(b) APPLICABILITY OF EXECUTIVE ORDER.—An Executive order described in subsection (a) may be applicable to all such original or new issues or to any aggregate amount or classification thereof which shall be stated in such order and shall apply to acquisitions occurring during such period of time as shall be stated therein. If the order is applicable to a limited aggregate amount of such issues it shall apply (under regulations prescribed by the Secretary or his delegate) to those acquisitions as to which notice of acquisition was first filed, provided that in the case of any such notice the acquisition described in the notice is made before or within 90 days after the date of filing.

"(c) ORIGINAL OR NEW ISSUE.—For purposes of this section, a debt obligation shall be treated as part of an original or new issue only if acquired not later than 60 days after the date on which interest begins to accrue on such obligation, and stock shall be treated as part of an original or new issue only when it is acquired from the issuer by the United States person claiming the exclusion.

"SEC. 4918. EXEMPTION FOR PRIOR AMERICAN OWNERSHIP.

"(a) GENERAL RULE.—The tax imposed by section 4911 shall not apply to an acquisition of stock or a debt obligation of a foreign issuer or obligor if it is established by clear and convincing evidence that the person from whom such stock or debt obligation was acquired was a United States person throughout the period of his ownership or continuously since July 18, 1963.

"(b) CERTIFICATE OF AMERICAN OWNERSHIP.—For purposes of subsection (a), a certificate of American ownership received in connection with an acquisition shall be conclusive proof for purposes of this exemption of prior American ownership unless the person making such acquisition has actual knowledge that the certificate is false in any material respect.

"(c) TRADING ON CERTAIN NATIONAL SECURITIES EXCHANGES.—For purposes of subsection (a), a written confirmation received from a member or member organization of a national securities exchange registered with the Securities and Exchange Commission stating that an acquisition was made in the regular market on such exchange (and not subject to a special contract) shall be conclusive proof for purposes of this exemption of prior American ownership (unless the person making such acquisition has actual knowledge that the confirmation is false in any material respect), if such exchange has in effect at the time of the acquisition rules providing that—

"(1) any stock or debt obligation, the acquisition of which by any United States person would be subject to the tax imposed by section 4911 but for the provisions of this section, shall be sold in the regular market on such exchange (and not subject to a special contract) only if the member or member organization of such exchange who effects the sale of such stock or debt obligation as broker has in his possession (A) a certificate of American ownership with respect to the stock or debt obligation sold, or (B) a blanket certificate of American ownership with respect to the account for which such stock or debt obligation is sold; and

"(2) any member or member organization of such exchange effecting as broker a purchase of any such stock or debt obligation subject to a special contract (and not in the regular market) shall furnish the person making such an acquisition a written confirmation stating that the acquisition was made subject to such special contract.

"(d) TRADING IN THE OVER-THE-COUNTER MARKET.—For purposes of subsection (a), a written confirmation from a member or member organization of a national securities association registered with the Securities and Exchange Commission received in connection with an acquisition made other than on a national securities exchange described in subsection (c) shall be conclusive proof for purposes of this exemption of prior American ownership, unless the confirmation states that the acquisition was made from a person who has not executed and filed a certificate of American ownership with respect to the stock or debt obligation sold or a blanket certificate of American ownership with respect to the account from which the stock or debt obligation is sold (or the person making such acquisition has actual knowledge that the confirmation is false in any material respect), if such association has in effect at the time of the acquisition rules providing that any member or member organization of such association who effects a sale as broker other than on a national securities exchange of any stock or debt obligation, the acquisition of which by any United States person would be subject to the tax imposed by section 4911 but for the provisions of this section, must—

"(1) have in his possession (A) a certificate of American ownership with respect to the stock or debt obligation sold, or (B) a blanket certificate of American ownership with respect to the account for which such stock or debt obligation is sold; or

"(2) furnish to the person acquiring such stock or debt obligation written confirmation stating that the acquisition is from a person who has not executed and filed a certificate of American ownership with respect to such stock or debt obligation or a blanket certificate of American ownership with respect to the account from which such stock or debt obligation is sold.

Any member or member organization of such an association who acquires any stock or debt obligation for his or its own account other than on a national securities exchange may treat a blanket certificate of American ownership with respect to the seller's account as conclusive proof for purposes of this exemption of prior American ownership, unless such member or member organization has actual knowledge that such certificate is false in any material respect.

"(e) EXECUTION, FILING, AND CONTENTS OF CERTIFICATE.—A certificate of American ownership or blanket certificate of American ownership under this section must be executed and filed in such manner and set forth such information as the Secretary or his delegate shall prescribe by regulations.

"SEC. 4919. SALES BY UNDERWRITERS AND DEALERS TO FOREIGN PERSONS.

"(a) CREDIT OR REFUND.—The tax paid under section 4911 on the acquisition of stock or debt obligations of a foreign issuer or obligor shall constitute an overpayment of tax to the extent that such stock or debt obligations—

"(1) PRIVATE PLACEMENTS.—Are acquired by an underwriter from the foreign issuer or obligor (or from a person or persons controlling, contolled by, or under common control with such issuer or obligor) and are sold directly by the underwriter to persons other than United States persons in transactions not involving a public offering;

"(2) PUBLIC OFFERINGS.—Are acquired by an underwriter for distribution in connection with a public offering by a foreign issuer or obligor (or a person or persons contolling, controlled by, or under common control with such issuer or obligor) and are sold as part of such pubic offering by the underwriter (including sales by other United States persons participating in the distribution of the stock or debt obligations acquired by the underwriter) to persons other than United States persons; or

"(3) CERTAIN DEBT OBLIGATIONS.—Consist of debt obligations acquired by a dealer in the ordinary course of his business and sold by the dealer to persons other than United States persons within 90 days after (or, in the case of short sales, within 90 days before) their acquisition.

Under regulations prescribed by the Secretary or his delegate, credit or refund (without interest) shall be allowed or made with respect to such overpayment.

"(b) EVIDENCE TO SUPPORT CREDIT OR REFUND.—An underwriter or dealer claiming credit or refund under this section shall file with the return required by section 6011(d) on which credit is claimed, or with the claim for refund, such information as the Secretary or his delegate may by reguations prescribe. Credit or refund shall not be allowed with respect to stock or debt obligations sold by a United States person participating in the distribution of the stock or debt obligations acquired by an underwriter unless the underwriter establishes by clear and convincing evidence that such stock or debt obligations were sold to persons other than United States persons. For purposes of the preceding sentence, a certificate of sales to foreign persons (executed in such manner by the United States person making such sales, filed in such manner, and setting forth such information, as the Secretary or his delegate may by regulations prescribe) shall be conclusive proof for purposes of the credit or refund that such sales were made to a person other than a United States person unless the underwriter relying upon the certificate has actual knowledge that the certificate is false in any material respect. In any case where two or more underwriters form a group for the purpose of purchasing and distributing (through resale) stock or debt obligations of a single foreign issuer or obligor, the filing of a certificate of sales to foreign persons by any one of such underwriters may, to the extent provided by regulations prescribed by the Secretary or his delegate, constitute the filing of such certificate for all of such underwriters.

"(c) DEFINITIONS.—For purposes of this section—

"(1) the term 'underwriter' means any person who has purchased stock or debt obligations from the issuer or obligor (or from a person controlling, controlled by, or under common control with such issuer or obligor), or from another underwriter, with a view to the distribution through resale of such stock or debt obligations; and

"(2) the term 'dealer' means any person who is a member of the National Association of Securities Dealers and who is regularly engaged, as a merchant, in purchasing stock or debt obligations and selling them to customers with a view to the gains and profits which may be derived therefrom.

"SEC. 4920. DEFINITIONS.

"(a) IN GENERAL.—For purposes of this chapter—

"(1) DEBT OBLIGATION.—

"(A) IN GENERAL.—Except as provided in subparagraph (B), the term 'debt obligation' means—

"(i) any indebtedness, whether or not represented by a bond, debenture, note, certificate, or other writing, whether or not secured by a mortgage, and whether or not bearing interest; and

"(ii) any interest in, or any option or similar right to acquire, a debt obligation referred to in this subparagraph, whether or not such interest, option, or right is in writing.

"(B) EXCEPTIONS.—The term 'debt obligation' shall not include any obligation which—

"(i) is convertible by its terms into stock of the obligor, if it is so convertible only within a period of 5 years or less from the date on which interest begins to accrue thereon; or

"(ii) arises out of the divorce, separate maintenance, or support of an individual who is a United States person.

"(2) STOCK.—The term 'stock' means—

"(A) any stock, share, or other capital interest in a corporation;

"(B) any interest of a partner in a partnership;

"(C) any interest in an investment trust;

"(D) any indebtedness which is convertible by its terms into stock of the obligor, if it is so convertible only within a period of 5 years or less from the date on which interest begins to accrue thereon; and

"(E) any interest in, or option or similar right to acquire, any stock described in this paragraph.

"(3) FOREIGN ISSUER OR OBLIGOR.—The terms 'foreign issuer', 'foreign obligor', and 'foreign issuer or obligor' mean any issuer of stock or obligor of a debt obligation, as the case may be, which is—

"(A)(i) an international organization of which the United States is not a member.

"(ii) the government of a foreign country or any political subdivision thereof, or an agency or instrumentality of such a government,

"(iii) a corporation, partnership, or estate or trust which is not a United States person as defined in paragraph (4); or

"(iv) a nonresident alien individual;

"(B) a domestic corporation which, as of July 18, 1963, was a management company registered under the Investment Company Act of 1940 if—

"(i) at least 80 percent of the value of the stock and debt obligations owned by such corporation on July 18, 1963, and at least 80 percent of the value of the stock and debt obligations owned by such corporation at the end of every calendar quarter thereafter (through the quarter preceding the quarter in which the acquisition involved is made), consists of stock or debt obligations of foreign issuers or obligors and other debt obligations having an original maturity of 90 days or less;

"(ii) such corporation elects to be treated as a foreign issuer or obligor for purposes of this chapter; and

"(iii) such corporation does not materially increase its assets during the period from July 18, 1963, to the date of such election through borrowing or through issuance or sale of its stock (other than stock issued or sold on or before September 16, 1963, as part of a public offering with respect to which a registration statement was first filed with the Securities and Exchange Commission on July 18, 1963, or within 90 days before that date).

The election under clause (ii) shall be made on or before the 60th day after the date of the enactment of this chapter under regulations prescribed by the Secretary or his delegate. Such election shall be effective as of the date specified by the corporation, but not later than the date on which such election is made, and shall remain in effect until revoked. If, at the close of any succeeding calendar quarter, the company ceases to meet the requirement of clause (i), the election shall thereupon (with respect to quarters after such calendar quarter) be deemed revoked. When an election is revoked no further election may be made. If the assets of a foreign corporation are acquired by a domestic corporation in a reorganization described in subparagraph (D) or (F) of section 368(a)(1), the two corporations shall be considered a single domestic corporation for purposes of this subparagraph.

A foreign corporation (other than a company registered under the Investment Company Act of 1940) shall not be considered a foreign issuer with respect to any class of its stock which is traded on one or more national securities exchanges registered with the Securities and Exchange Commission, if the trading on such national securities exchanges constituted the principal market for such class of stock during the calendar year 1962 and if, as of the latest record date before July 19, 1963, more than 50 percent of such class of stock was held of record by United States persons.

"(4) UNITED STATES PERSON.—The term 'United States person' means—

"(A) a citizen or resident of the United States,

"(B) a domestic partnership,

"(C) a domestic corporation, other than a corporation described in paragraph (3)(B),

"(D) An agency or wholly owned instrumentality of the United States,

"(E) a State or political subdivision, or any agency or instrumentality thereof, and

"(F) any estate or trust—

"(i) the income of which from sources without the United States is includible in gross income under subtitle A (or would be so includible if not exempt from tax under section 501(a), section 521(a), or section 584(b)), or

"(ii) which is situated in the Commonwealth of Puerto Rico or a possession of the United States.

"(5) DOMESTIC CORPORATION; DOMESTIC PARTNERSHIP.—The terms 'domestic corporation' and 'domestic partnership' mean, respectively, a corporation or partnership created or organized in the United States or under the laws of the United States or of any State.

"(6) UNITED STATES; STATE.—The term 'United States' when used in a geographical sense includes the States, the District of Columbia, the Commonwealth of Puerto Rico, and the possessions of the United States; and the term 'State' includes the District of Columbia, the Commonwealth of Puerto Rico, and the possessions of the United States.

"(7) PERIOD REMAINING TO MATURITY.—

"(A) IN GENERAL.—Subject to the modifications set forth in subparagraph (B), the period remaining to maturity of a debt obligation shall be that period beginning on the date of its acquisition and ending on the fixed or determinable date when, according to its terms, the payment of principal becomes due.

"(B) MODIFICATIONS.—The period remaining to maturity—

"(i) of any interest in, or any option or similar right to acquire, any debt obligation shall be the period remaining to maturity of that debt obligation at the time of the acquisition of such interest, option, or right;

"(ii) of any debt obligation which is renewable without affirmative action by the obligee, or of any interest in or option or similar right to acquire such a debt obligation, shall end on the last day of the final renewal period;

"(iii) of any debt obligation which has no fixed or determinable date when the payment of principal becomes due shall be considered to be 28½ years;

"(iv) of any debt obligation which is payable on demand shall be considered to be less than 3 years; and

"(v) of a debt obligation which is subject to retirement before its maturity through operation of a mandatory sinking fund shall be determined under regulations prescribed by the Secretary or his delegate.

"(b) CROSS REFERENCE.—

"For definition of 'acquisition', see section 4912."

(b) TECHNICAL AMENDMENT.—The table of chapters for subtitle D is amended by adding at the end thereof the following item:

"Chapter 41. Interest equalization tax."

(c) EFFECTIVE DATE.—

(1) GENERAL RULE.—Except as provided by paragraphs (2), (3), (4), (5), (6), and (7), the amendments made by this section shall apply with respect to acquisitions of stock and debt obligations made after July 18, 1963.

(2) PREEXISTING COMMITMENTS.—Such amendments shall not apply to an acquisition—

(A) made pursuant to an obligation to acquire which on July 18, 1963—

(i) was unconditional, or

(ii) was subject only to conditions contained in a formal contract under which partial performance had occurred;

(B) as to which on or before July 18, 1963, the acquiring United States person (or, in a case where 2 or more United States persons are making acquisitions, as part of a single transaction, a majority in interest of such persons) had taken every action to signify approval of the acquisition under the procedures ordinarily employed by such person (or persons) in similar transactions and had sent or deposited for delivery to the foreign issuer or obligor written evidence of such approval in the form of a commitment letter, memorandum of terms, or other signed document setting forth the principal terms of such acquisition, subject only to the execution of formal documents evidencing the acquisition and to customary closing conditions; or

(C) which would be excluded from tax under section 4915 of the Internal Revenue Code of 1954 but for the provisions of subsection (c) thereof, if (i) on or before July 18, 1963, the acquiring United States person applied for and received from a foreign government (or an agency or instrumentality thereof) authorization to make such acquisition and approval of the amount thereof, and (ii) such authorization was required in order for such acquisition to be made.

(3) PUBLIC OFFERING.—Such amendments shall not apply to an acquisition made on or before September 16, 1963, if—

(A) a registration statement (within the meaning of the Securities Act of 1933) was in effect with respect to the stock or debt obligation acquired at the time of its acquisition;

(B) the registration statement was first filed with the Securities and Exchange Commission on July 18, 1963, or within 90 days before that date; and

(C) no amendment was filed with the Securities and Exchange Commission after July 18, 1963, and before the acquisition which had the effect of increasing the number of shares of stock or the aggregate face amount of the debt obligations covered by the registration statement.

(4) INVESTMENT OF PROCEEDS OF SUBSCRIPTION OFFERING.—Such amendments shall not apply to an acquisition of stock or debt obligations of a foreign issuer or obligor by a corporation electing under section 4920(a)(3)(B) of the Internal Revenue Code of 1954 to be treated as a foreign issuer or obligor for purposes of chapter 41 of such Code, to the extent that the amount of consideration paid for all such stock and debt obligations does not exceed the proceeds received by such corporation from a subscription offering (completed on or before September 16, 1963) as to which a registration statement was filed with the Securities and Exchange Commission on July 18, 1963, or within 90 days before that date.

(5) LISTED SECURITIES.—Such amendments shall not apply to an acquisition made on or before August 16, 1963, if the stock or debt obligation involved was acquired on a national securities exchange registered with the Securities and Exchange Commission.

(6) OPTIONS AND FORECLOSURES.—Such amendments shall not apply to an acquisition—

(A) of stock pursuant to the exercise of an option or similar right (or a right to convert a debt obligation into stock), if such option or right was held on July 18, 1963, by the person making the acquisition or by a decedent from whom such person acquired the right to exercise such option or right by bequest or inheritance or by reason of such decedent's death, or

(B) of stock or debt obligations as a result of a foreclosure by a creditor pursuant to the terms of an instrument held by such creditor on July 18, 1963.

(7) DOMESTICATION.—Such amendments shall not apply to the acquisition by a domestic corporation of the assets of a foreign corporation pursuant to a reorganization described in subparagraph (D) or (F) of section 368(a)(1) of the Internal Revenue Code of 1954 if the acquisition occurs on or before the 180th day after the date of the enactment of this Act and the foreign corporation was a management company registered under the Investment Company Act of 1940 from July 18, 1963, until the time of the acquisition.

(8) MEANING OF TERMS.—Terms used in this subsection (except as specifically otherwise provided) shall have the same meaning as when used in chapter 41 of the Internal Revenue Code of 1954.

SEC. 3. RETURNS.

(a) MAKING OF RETURNS.—Section 6011 (relating to general requirement of return, statement, or list) is amended by redesignating subsection (d) as subsection (e), and by adding after subsection (c) the following new subsection:

"(d) INTEREST EQUALIZATION TAX RETURNS, ETC.—

"(1) IN GENERAL.—Every person shall make a return for each calendar quarter during which he incurs liability for the tax imposed by section 4911, or would so incur liability but for the provisions of section 4918. The return shall, in addition to such other information as the Secretary or his delegate may by regulations require, include a list of all acquisitions made by such person during the calendar quarter which are exempt under the provisions of section 4918, and shall be accompanied by clear and convincing evidence showing that the acquisitions are so exempt. No return or accompanying evidence shall be required under this paragraph in connection with any acquisition with respect to which a written confirmation, furnished in accordance with the requirements described in section 4918 (c) or (d), is treated as conclusive proof of prior American ownership; nor shall any such acquisition be required to be listed in any return made under this paragraph.

"(2) INFORMATION RETURNS OF COMMERCIAL BANKS.—Every United States person (as defined in section 4920(a)(4)) which is a commercial bank shall file a return with respect to loans and commitments to foreign obligors at such times, in such manner, and setting forth such information as the Secretary or his delegate shall by forms and regulations prescribe.

"(3) REPORTING REQUIREMENTS FOR MEMBERS OF EXCHANGES AND ASSOCIATIONS.—Members of member organizations of national securities exchanges and national securities associations registered with the Securities and Exchange Commission shall keep such records and file such information as the Secretary or his delegate may by regulations prescribe in connection with sales effected by such members or member organizations as brokers, and acquisitions made for their own accounts, of stock or debt obligations as to which a certificate of American ownership or blanket certificate of American ownership is executed and filed as described in section 4918(e)."

(b) TIME FOR FILING RETURNS.—Part V of subchapter A of chapter 61 (relating to time for filing returns and other documents) is amended by adding at the end thereof the following new section:

"SEC. 6076. TIME FOR FILING INTEREST EQUALIZATION TAX RETURN.

"Each return made under section 6011(d)(1) (relating to interest equalization tax) shall be filed on or before the last day of the first month following the period for which it is made."

(c) PUBLICITY OF RETURNS.—Section 6103(a)(2) (relating to public record and inspection) is amended by striking out "and subchapter B of chapter 37" and inserting in lieu thereof "subchapter B of chapter 37, and chapter 41".

(d) CLERICAL AMENDMENT.—The table of sections for part V of subchapter A of chapter 61 is amended by adding at the end thereof the following:

"Sec. 6076. Time for filing interest equalization tax returns."

(e) FIRST RETURN PERIOD.—Notwithstanding any provision of section 6011(d)(1) of the Internal Revenue Code of 1954, the first period for which returns shall be made under such section 6011(d)(1) shall be the period commencing July 19, 1963, and ending at the close of the calendar quarter in which the enactment of this Act occurs.

SEC. 4. DISALLOWANCE OF DEDUCTION FOR AMOUNT PAID AS INTEREST EQUALIZATION TAX

Section 263(a) (relating to capital expenditures) is amended by adding at the end thereof the following new paragraph:

"(3) Any amount paid as tax under section 4911 (relating to imposition of interest equalization tax) except to the extent that any amount attributable to the amount paid as tax is included in gross income for the taxable year."

SEC. 5. PENALTIES.

(a) ASSESSABLE PENALTIES.—Subchapter B of chapter 68 (relating to assessable penalties) is amended by adding at the end thereof the following new sections:

"SEC. 6680. FAILURE TO FILE INTEREST EQUALIZATION TAX RETURNS

"In addition to the penalty imposed by section 7203 (relating to willful failure to file return, supply information, or pay tax), any person who is required under section 6011(d)(1) (relating to interest equalization tax returns) to file a return for any period in respect of which, by reason of the provisions of section 4918, he incurs no liability for payment of the tax imposed by section 4911, and who fails to file such return within the time prescribed by section 6076, shall pay a penalty of $10 or 5 percent of the amount of tax for which he would incur liability for payment under section 4911 but for the provisions of section 4918, whichever is the greater, for each such failure unless it is shown that the failure is due to reasonable cause. The penalty imposed by this section shall not exceed $1,000 for each failure to file a return.

"SEC. 6681. FALSE EQUALIZATION TAX CERTIFICATES

"(a) FALSE CERTIFICATE OF AMERICAN OWNERSHIP.—In addition to the criminal penalty imposed by section 7241, any person who willfully executes a certificate of American ownership or blanket certificate of American ownership described in section 4918(e) which contains a misstatement of material fact shall be liable to a penalty equal to 125 percent of the amount of tax imposed by section 4911 on the acquisition of the stock or debt obligation involved which, but for the provisions of section 4918, would be payable by the person acquiring the stock or debt obligation.

"(b) LIABILITY OF MEMBERS OF NATIONAL SECURITIES EXCHANGES AND ASSOCIATIONS.—A member or member organization of a national securities exchange described in section 4918(c) or a national securities association described in section 4918(d) shall be liable to a penalty equal to 125 percent of the amount of tax imposed by section 4911 on the acquisition (in a transaction subject to the rules of such exchange or association as described in section 4918(c) or (d)) of stock or a debt obligation which but for the provisions of section 4918, would be payable by the person acquiring the stock or debt obligation, if such member—

"(1) willfully effects the sale of such stock or debt obligation or furnishes a written confirmation with respect to the purchase or sale of such stock or debt obligation other than in accordance with the requirements described in section 4918 (c) or (d); or

"(2) has actual knowledge that—

"(A) the certificate of American ownership or the blanket certificate of American ownership (referred to in section 4918) in his possession in connection with the sale of such stock or debt obligation is false in any material respect; or

"(B) the person who executed and filed the blanket certificate of American ownership in his possession was not a United States person at the time of sale.

"(c) FALSE CERTIFICATE OF SALES TO FOREIGN PERSONS.—In addition to the criminal penalty imposed by section 7241, any person who willfully executes a certificate of sales to foreign persons described in section 4919(b) which contains a misstatement of material fact shall be liable to a penalty equal to 125 percent of the amount of the tax imposed by section 4911 on the acquisition of the stock or debt obligation involved which, but for the provisions of section 4919(b), would be payable by the underwriter acquiring the stock or debt obligation.

"(d) PENALTY TO BE IN LIEU OF TAX IN CERTAIN CASES.—Unless the person acquiring the stock or debt obligation involved had actual knowledge that the certificate was false in any material respect, the penalty under subsection (a) or (c) shall be in lieu of any tax on the acquisition of such stock or debt obligation under section 4911."

(b) CRIMINAL PENALTY.—Part II of subchapter A of chapter 75 (relating to penalties applicable to certain taxes) is amended by adding at the end thereof the following new section:

"SEC. 7241. PENALTY FOR FRAUDULENT EQUALIZATION TAX CERTIFICATES.

"Any person who willfully executes a certificate of American ownership or blanket certificate of American ownership described in section 4918(e), or a certificate of sales to foreign persons described in section 4919(b), which is known by him to be fraudulent or to be false in any material respect shall be guilty of a misdemeanor and, upon conviction thereof, shall for each offense be fined not more than $1,000, or imprisoned not more than 1 year, or both."

(c) CLERICAL AMENDMENTS.—

(1) The table of sections for subchapter B of chapter 68 is amended by adding at the end thereof the following:

"Sec. 6680. Failure to file interest equalization tax returns.

"Sec. 6681. False equalization tax certificates."

(2) The table of sections for part II of subchapter A of chapter 75 is amended by adding at the end thereof the following:

"Sec. 7241. Penalty for fraudulent equalization tax certificates."

The CHAIRMAN. No amendments are in order to the bill or to the committee substitute except amendments offered by direction of the Committee on Ways and Means, and such amendments shall not be subject to amendment.

Are there any committee amendments?

Mr. MILLS. Mr. Chairman, there are two committee amendments, entirely clerical in nature to correct errors in the printing of the committee amendment. I ask unanimous consent that the two amendments be considered en bloc.

The CHAIRMAN. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

The Clerk read as follows:

Committee amendments: Page 35, in the table which follows line 5, strike out "At least 3½ years, but less than 3½ years" and insert "At least 3½ years, but less than 4½ years".

Page 57, line 16, strike out "caset" and insert "case".

The CHAIRMAN. The question is on the committee amendments.

The committee amendments were agreed to.

The CHAIRMAN. The question is on the committee amendment in the nature of a substitute, as amended.

The committee amendment was agreed to.

The CHAIRMAN. Under the rule, the Committee rises.

Accordingly, the Committee rose; and the Speaker having resumed the Chair, Mr. GARY, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee having had under consideration the bill (H.R. 8000) to amend the Internal Revenue Code of 1954 to impose a tax on acquisitions of certain foreign securities in order to equalize costs of longer term financing in the United States and in markets abroad, and for other purposes, pursuant to House Resolution 643, he reported the bill back to the House with an amendment adopted by the Committee of the Whole.

The SPEAKER. Under the rule, the previous question is ordered. The question is on the committee amendment.

The committee amendment was agreed to.

The SPEAKER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, and was read the third time.

The SPEAKER. The question is on the passage of the bill.

Mr. BYRNES of Wisconsin. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. Is the gentleman opposed to the bill?

Mr. BYRNES of Wisconsin. I am, Mr. Speaker.

The SPEAKER. The Clerk will report the motion to recommit.

The Clerk read as follows:

Mr. BYRNES of Wisconsin moves to recommit the bill H.R. 8000 to the Committee on Ways and Means.

Mr. MILLS. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER. The question is on the motion to recommit.

The motion to recommit was rejected.

The SPEAKER. The question is on the passage of the bill.

Mr. BYRNES of Wisconsin. On that I demand the yeas and nays.

Mr. MILLS. Mr. Speaker, I join the gentleman in that request.

The yeas and nays were ordered.

The question was taken; and there were—yeas 238, nays 142, answered "present" 1, not voting 51, as follows:

[Roll No. 59]

YEAS—238

Abbitt	Flood	Long, La.
Abernethy	Flynt	McDowell
Addabbo	Fogarty	McFall
Albert	Forrester	McMillan
Andrews, Ala.	Fountain	Macdonald
Ashley	Fraser	Mahon
Ashmore	Friedel	Marsh
Aspinall	Fulton, Tenn.	Matthews
Baring	Fuqua	Miller, Calif.
Barrett	Gallagher	Mills
Beckworth	Garmatz	Minish
Bennett, Fla.	Gary	Monagan
Blatnik	Gathings	Montoya
Boggs	Giaimo	Moorhead
Boland	Gibbons	Morgan
Bonner	Gilbert	Morris
Brademas	Gill	Morrison
Bray	Gonzalez	Moss
Buckley	Grabowski	Multer
Burke	Grant	Murphy, Ill.
Burkhalter	Gray	Murphy, N.Y.
Burleson	Griffin	Murray
Burton, Calif.	Griffiths	Natcher
Byrne, Pa.	Hagan, Ga.	Nedzi
Cameron	Hagen, Calif.	Nix
Cannon	Haley	O'Brien, N.Y.
Carey	Hanna	O'Hara, Ill.
Casey	Hansen	O'Hara, Mich.
Celler	Harding	O'Konski
Chelf	Hardy	Olsen, Mont.
Clark	Harris	Olson, Minn.
Cohelan	Hawkins	O'Neill
Collier	Hays	Patman
Colmer	Healey	Patten
Cooley	Hébert	Pepper
Corbett	Hechler	Perkins
Corman	Hemphill	Philbin
Cunningham	Henderson	Pickle
Curtin	Herlong	Pike
Daddario	Holifield	Pilcher
Daniels	Huddleston	Poage
Davis, Ga.	Hull	Poff
Delaney	Ichord	Powell
Dent	Jennings	Price
Denton	Joelson	Pucinski
Diggs	Johnson, Calif.	Purcell
Dingell	Johnson, Wis.	Randall
Donohue	Jones, Mo.	Reuss
Dorn	Karsten	Rhodes, Pa.
Dowdy	Karth	Rivers, Alaska
Downing	Kastenmeier	Rivers, S.C.
Dulski	Kee	Rodino
Duncan	Kelly	Rogers, Fla.
Edmondson	Kilgore	Rogers, Tex.
Edwards	Kirwan	Rooney, N.Y.
Everett	Kluczynski	Rooney, Pa.
Evins	Kornegay	Roosevelt
Fallon	Kunkel	Rosenthal
Farbstein	Landrum	Rostenkowski
Fascell	Leggett	Roush
Feighan	Lennon	Roybal
Finnegan	Lesinski	Ryan, Mich.
Fisher	Libonati	Ryan, N.Y.
St Germain	Staggers	Vanik
Saylor	Stephens	Vinson
Schneebeli	Stratton	Watson
Schweiker	Stubblefield	Watts
Scott	Sullivan	Weltner
Secrest	Taylor	Whitener
Selden	Teague, Tex.	Whitten
Senner	Thomas	Wickersham
Shipley	Thompson, La.	Williams
Sickles	Thompson, N.J.	Willis
Sikes	Thompson, Tex.	Wilson, Charles H.
Siler	Toll	Winstead
Sisk	Trimble	Wright
Smith, Iowa	Tuck	Young
Smith, Va.	Udall	Zablocki
Snyder	Ullman	
Staebler	Van Deerlin	

NAYS—142

Abele	Fulton, Pa.	Moore
Adair	Glenn	Morse
Alger	Goodell	Morton
Anderson	Goodling	Mosher
Andrews, N. Dak.	Gross	Nelsen
Arends	Grover	Osmers
Ashbrook	Gubser	Ostertag
Auchincloss	Gurney	Pelly
Ayres	Halleck	Pillion
Baldwin	Halpern	Pirnie
Barry	Harrison	Quie
Bates	Harsha	Quillen
Battin	Harvey, Ind.	Reid, Ill.
Becker	Harvey, Mich.	Reid, N.Y.
Beermann	Hoeven	Reifel
Belcher	Horan	Rich
Berry	Horton	Riehlman
Betts	Hosmer	Robison
Bolton, Frances P.	Hutchinson	Roudebush
Bow	Jensen	Rumsfeld
Brock	Johansen	St. George
Broomfield	Johnson, Pa.	Schadeberg
Brotzman	Jonas	Schenck
Broyhill, N.C.	Keith	Schwengel
Broyhill, Va.	Keogh	Short
Burton, Utah	Kilburn	Sibal
Byrnes, Wis.	King, N.Y.	Smith, Calif.
Cahill	Knox	Springer
Cederberg	Kyl	Stafford
Chamberlain	Laird	Stinson
Clancy	Lindsay	Talcott
Clausen, Don H.	Lipscomb	Teague, Calif.
Clawson, Del	Lloyd	Thomson, Wis.
Cleveland	Long, Md.	Tollefson
Conte	McClory	Tupper
Cramer	McCulloch	Utt
Curtis	McDade	Van Pelt
Dague	McIntire	Wallhauser
Derounian	McLoskey	Weaver
Derwinski	MacGregor	Westland
Devine	Mailliard	Whalley
Dole	Martin, Calif.	Wharton
Dwyer	Martin, Mass.	Wilson, Bob
Findley	Martin, Nebr.	Wilson, Ind.
Foreman	Matsunaga	Wydler
Frelinghuysen	May	Wyman
	Michel	Younger
	Milliken	
	Minshall	

ANSWERED "PRESENT"—1

Langen

NOT VOTING—51

Avery	Ford	Rains
Bass	Green, Oreg.	Rhodes, Ariz.
Bell	Hall	Roberts, Ala.
Bennett, Mich.	Hoffman	Roberts, Tex.
Bolling	Holland	Rogers, Colo.
Bolton, Oliver P.	Jarman	St. Onge
Bromwell	Jones, Ala.	Sheppard
Brooks	King, Calif.	Shriver
Brown, Calif.	Lankford	Skubitz
Brown, Ohio	Latta	Slack
Bruce	Madden	Steed
Chenoweth	Mathias	Taft
Davis, Tenn.	Meader	Tuten
Dawson	Miller, N.Y.	Waggonner
Elliott	Norblad	White
Ellsworth	O'Brien, Ill.	Widnall
Fino	Passman	
	Pool	

So the bill was passed.

The Clerk announced the following pairs:

On this vote:

Mr. Steed for, with Mr. Langen against.

Mr. Bass for, with Mr. Widnall against.

Mr. St. Onge for, with Mr. Taft against.

Mr. Slack for, with Mr. Mathias against.

Mr. Brooks for, with Mr. Ellsworth against.

Mr. King of California for, with Mr. Fino against.

Mr. Madden for, with Mr. Hoffman against.

Mr. Davis of Tennessee, with Mr. Oliver P. Bolton against.

Mr. Holland for, with Mr. Brown of Ohio against.

Mr. Rogers of Colorado for, with Mr. Hall against.

Mr. Jones of Alabama for, with Mr. Rhodes of Arizona against.

Mr. White for, with Mr. Bell against.

Mr. Elliott for with Mr. Miller of New York against.

Mr. Roberts of Alabama for, with Mr. Bromwell against.

Mr. Sheppard for, with Mr. Skubitz against.

Mr. Roberts of Texas for, with Mr. Shriver against.

Until further notice:

Mrs. Green of Oregon with Mr. Ford.

Mr. O'Brien of Illinois with Mr. Avery.

Mr. Passman with Mr. Bruce.

Mr. Brown of California with Mr. Norblad.

Mr. Waggonner with Mr. Chenoweth.

Mr. Lankford with Mr. Bennett of Michigan.

Mr. Rains with Mr. Latta.

Mr. Dawson with Mr. Meader.

Mr. Tuten with Mr. Pool.

Mr. LANGEN. Mr. Speaker, on this vote I am recorded as voting "no." I have a live pair with the gentleman from Oklahoma [Mr STEED]. If he were present, he would vote "yea." Therefore, I withdraw my vote and vote "present."

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

AUTHORIZING DEFENSE PROCUREMENT AND RESEARCH AND DEVELOPMENT FOR FISCAL YEAR 1965

Mr. VINSON submitted the following conference report and statement on the bill (H.R. 9637) to authorize appropriations during fiscal year 1965 for procurement of aircraft, missiles, and naval vessels, and research, development, test, and evaluation for the Armed Forces, and for other purposes:

CONFERENCE REPORT (H. REPT. No. 1213)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 9637) to authorize appropriations during fiscal year 1965 for procurement of aircraft, missiles, and naval vessels, and research, development, test, and evaluation, for the Armed Forces, and for other purposes, having met after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

Amendment numbered 1: That the House recede from its disagreement to the amendment of the Senate numbered 1, and agree to the same with an amendment, as follows: Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: "$1,345,045,000"; and the Senate agree to the same.

Amendment numbered 2: That the House recede from its disagreement to the amendment of the Senate numbered 2, and agree to the same with an amendment, as follows: Strike out the matter proposed to be stricken out and in lieu of the matter proposed to be inserted by the Senate amendment insert the following: "$1,378,060,000"; and the Senate agree to the same.

Amendment numbered 3: That the House recede from its disagreement to the amendment of the Senate numbered 3, and agree to the same with an amendment, as follows: Strike out the matter proposed to be stricken